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PREPARATION FOR THE 1990 FARM BILL

HEARINGS

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

SECOND SESSION

ON

NUTRITION PROGRAMS AND NUTRITION AND DAIRY TITLES OF THE 1990 FARM BILL

FEBRUARY 27 AND APRIL 18, 1990—NUTRITION
MARCH 7, 1990—DAIRY

PART XIV

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PREPARATION FOR THE 1990 FARM BILL

Nutrition

TUESDAY, FEBRUARY 27, 1990

U.S. Senate,
Committee on Agriculture, Nutrition, and Forestry,
Washington, DC.

The committee met, pursuant to notice, at 10:19 a.m., in room SD-G50, Dirksen Senate Office Building, Hon. Patrick J. Leahy (chairman of the committee) presiding.

Present or submitting a statement: Senators Leahy, Harkin, Conrad, Baucus, Kerrey, Lugar, Boschwitz, and Gorton.

The Chairman. If we could begin, please, I apologize for being late. I arrived very late last night from Nicaragua, primarily to make sure I got back in time for this hearing, and notwithstanding that, I still came a little bit late.

I was very interested in having this hearing, and we are going to be hearing from two of the most distinguished Members of the U.S. Senate, Senator Sasser and Senator Domenici, in a few minutes.

STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT

The Chairman. I first want to say why I want to have this hearing and why I put so much importance on it. Hunger is not a political issue. It is truly a moral issue in this country. It gnaws at the inner fiber of our Nation's health.

It jeopardizes the future of our entire nation.

I see it as a moral issue because in the wealthiest, most powerful nation on Earth, how can we ever accept the question of hunger?

When children go to school hungry, they simply cannot learn. If our Nation's children are not learning, our Nation's future is seriously at risk. We must not surrender our future.

Nutrition programs will not just be another title added on at the end of the farm bill. Nutrition programs are a test of this Nation's conscience. The farm bill will not be complete until the needs of the hungry are met.

We are, as I have said, the richest, most self-sufficient nation on Earth. Yet millions go to bed hungry every night. Hunger is not limited to the homeless living on our street corners and in our subway stations. It is far more extensive.

It is time to shatter the stereotype of the hungry.

Millions of Americans work day in and day out, but still do not earn enough to make ends meet. They work hard, but often cannot adequately feed and clothe their children.

Eight million Americans who work still live in poverty. The working poor is one of the fastest growing segments in our society. They are my neighbors. They are your neighbors. Any one of us could walk out of this room and just walk a few yards and see the working poor.

Let us look at the hard facts. Housing costs are skyrocketing. Forty-five percent of poor renters spend 70 percent of their family income on housing. Many of these families often choose between paying their rent or feeding their children.

Farmers, storekeepers, factory and steelworkers across this country are sending their sons and daughters to school hungry every single day.

A 1988 Carnegie Foundation study in my home State of Vermont found that 81 percent of Vermont teachers reported that undernourished children were a problem in their schools. In the world's wealthiest nation, this is truly a disgrace.

It is time to get our priorities straight. It is time for the administration to stop cutting taxes for the rich while cutting programs for the poor.

According to the Joint Committee on Taxation, by 1995, the administration's capital gains tax will give a $100 billion tax break to the wealthiest Americans. Eighty percent of that money would go to the richest 3 percent of all taxpayers.

Yet this year, the administration proposes to cut more than a half billion dollars from our Nation's nutrition programs. I will not support and I will not tolerate these cuts.

I will oppose cuts to school——

[Applause.]

I will oppose cuts to school lunch programs. I will oppose cuts to day care feeding programs.

[Applause.]

I will oppose the administration's proposed cuts for the nutrition programs in Puerto Rico.

I think we are heading in the wrong direction. Puerto Ricans have died defending America's freedoms. Fairness requires that American citizens everywhere be treated equally. We should not force hungry people to vote with their bellies.

Statistics show that, across our Nation, the rich get richer while the poor grow hungrier. The gap between rich and poor in our Nation is wider than it has been since the end of World War II.

When the poorest fifth of U.S. families earn less than 5 percent of America's income, while the richest fifth receive well over 40 percent, then something is wrong.

Today, I am introducing legislation that will begin to reverse this trend. I do so to honor a great humanitarian and a champion of the poor and hungry all over the world, a man who was a close friend of mine, Mickey Leland.[1]

---

[1] S. 2489, Mickey Leland Memorial Domestic Hunger Relief Act, modified version added as an amendment to S. 2830, Food, Agriculture, Conservation, and Trade Act of 1990.

I am proud to announce that this will have strong bipartisan support.

Congressman Leon Panetta, a Democrat of California, and Bill Emerson, Republican of Missouri, both of whom have been in the forefront of efforts to feed the hungry, will introduce this bill, the Mickey Leland Domestic Hunger Relief Act, in the House. We all know how Mickey Leland died last year in setting out on a journey to feed the hungry. He didn't just talk about it; he acted on the desire to feed the hungry, and he died doing it.

In the Senate, again, two of the leading Members of the Senate, one a Democrat and one a Republican, Senator Sasser and Senator Domenici, will introduce a second bill—to meet the needs of vulnerable low-income Americans. I hope to have full support from the Senate Agriculture Committee for that.

In fact, Senator Sasser and Senator Domenici are here to discuss that bill, so I will not go into it further.

I might say that in this committee, partisanship has been set aside on nutrition matters, and we have seen how well that has worked for the country. My good friend and the leading Republican member of this committee, Senator Lugar, and the ranking member on the Nutrition Subcommittee, Senator Boschwitz, both deserve a great deal of praise for the work they have done. Senator Harkin, the chairman of the Nutrition Subcommittee, has fought for years to help the hungry.

When I first came here, I remember probably the oddest couple pairing—Dick, you remember that, too—you were here, Bob Dole and George McGovern, who often didn't agree on anything else, but working hand-in-hand on matters of nutrition.

Again, I would just close with this. I have said it so many times and I will continue to say it until people understand it. Hunger in America is not a political issue. It is a truly moral issue. Until we as Americans accept that and understand it, hunger will continue. When we understand it in this great and good nation, then we will take the steps necessary to eliminate hunger throughout America.

I yield to my good friend, Senator Lugar.

STATEMENT OF HON. RICHARD G. LUGAR, A U.S. SENATOR FROM INDIANA

Senator LUGAR. Well, thank you very much, Mr. Chairman. I appreciate your statement and your advocacy and your leadership in this respect; likewise, the attendance at this hearing of so many Americans who have given leadership in this area at the grassroots. I share, certainly, your comment that we attempt to make a legislative statement, but likewise an important moral statement, through our activities in this area.

I want to especially welcome the visitors from the Indiana School Food Service Association who are in the audience this morning because we have had opportunities to work closely over the years. I value their counsel at the grassroots in Indiana, especially on the issues of child nutrition which they have served so well. I look forward to hearing the testimony of representatives of the American School Food Service Association and all of the other witnesses that are with us this morning.

As the chairman has pointed out, the focus of today's hearing will be on the reauthorization of several expiring nutrition programs—the Food Stamp Program, the Temporary Emergency Food Assistance Program, the Commodity Supplemental Food Program, and other special donation programs.

We must also consider the future of the soup kitchen provision which was instituted in the Hunger Prevention Act in 1988 and is due to expire next year. That program has provided $40 million in food assistance to soup kitchens and food banks to feed our homeless population in this country. The homeless are a difficult group to reach through traditional food assistance programs. I look forward to continuing this program and to investigating other innovative ways to serve the homeless.

In the past 3 years, this committee has worked on a cooperative, bipartisan basis on the vital topic of food and nutrition. We have had good success in the committee and on the floor with regard to this legislation. In that time, we have passed several major food assistance bills, including the nutrition title of the McKinney homeless bill, the Commodity Distribution Reform and WIC Improvements Act, the Hunger Prevention Act, and the child nutrition reauthorization. This committee has had a distinguished, positive and comprehensive record of accomplishment.

In today's testimony, I look forward to hearing new ideas which will make our nutrition programs more accessible to the needy, break down unnecessary barriers to participation, strengthen those portions of our program that encourage self-reliance and economic independence by recipients, and the easing of administration of the programs.

I think, Mr. Chairman, we recognize that even as strong as our advocacy may be that our nutrition goals compete with other very important priorities in the Federal budget. And for this reason, I look forward to hearing from distinguished colleagues on the Budget Committee who will give us their viewpoint and who shoulder a very, very difficult task.

I thank you, Mr. Chairman, for calling the hearing on this vitally important subject within our jurisdiction. I look forward, as always, to working with you, with other members of the committee, and with USDA to craft a generous, compassionate nutrition title to the 1990 farm bill.

Thank you very much.

The CHAIRMAN. Thank you very much, Senator Lugar.

Senator GORTON. I have a statement which I will just ask to be put in the record, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Gorton.

[The prepared statements of Senators Harkin, Dole, Boschwitz, and Gorton follow:]

PREPARED STATEMENT OF HON. TOM HARKIN, A U.S. SENATOR FROM IOWA

Thank you Mr. Chairman. I cannot praise enough your dedication and hard work to alleviate hunger in America. You have been there year after year working to fulfill for all Americans the simple and basic human need for enough nourishing food.

I also want to welcome to the committee Senator Sasser and Senator Domenici and express my gratitude for the outstanding contribution they are making through the budget process to the fight against hunger in America.

Mr. Chairman, hunger is a deeply rooted problem that has plagued this Nation for many years; over the years a number of Federal programs have addressed that problem. When a problem has been with us that long, our senses tend to become dulled to its urgency. And when we create Federal programs to fight hunger—which have by and large been successful—we may tend to think that the problem is solved, at least for a while.

So I believe we must guard against a sense of complacency that would prevent us from realizing that we have a long way to go in alleviating hunger in this Nation. The reality of hunger in this land of plenty is one of the most remarkable paradoxes of our day.

An estimated 20 million Americans suffer from hunger. Nearly 13 million of them are children—that is 1 in every 5 children in America. Poverty is the leading indicator of hunger. Thirty-two million Americans live in poverty, 5.8 million more than in 1979 according to the Census Bureau.

I do not cite these figures to paint a hopeless picture or because the programs are not working. Hunger is not by any means an unsolvable problem—but alleviating hunger will take perseverance and commitment.

We need to look for ways to improve and build on our existing Federal efforts. We made some important additions to our tools against hunger in the Hunger Prevention Act of 1988. But I'm concerned that the President's budget will compromise those gains, for example, by using part of the money for TEFAP to purchase commodities already held by the Government. That is not what was intended.

I am also very concerned by the President's proposal to eliminate any Federal support for school lunches for children from families with higher incomes. This is a misguided effort to save money. The section 4 subsidy is not welfare, it is an investment in the health and the education of the new generation of Americans. Kids cannot learn without proper nutrition. Let's keep in mind that in Japan 98 percent of all children receive school lunches. But in this country the budget cuts of 1981 still translate into 2 million fewer children getting school lunches.

We also need to look for ways to improve access to the nutrition programs for those who have trouble taking advantage of them, such as elderly people and people in rural areas.

So, Mr. Chairman, I commend you for holding this hearing and I look forward to working with you this year on significant nutrition legislation.

Prepared Statement of Hon. Robert Dole, a U.S. Senator From Kansas

I want to thank the distinguished chairman, Senator Leahy, for calling this hearing and I join my colleagues in welcoming Senator Sasser, Senator Domenici, and our other witnesses, who will provide valuable testimony on how our Federal nutrition programs are working and what we can do to improve them. We have a new nutrition team in place now at the Department of Agriculture, and I want to take this opportunity to compliment them on their commitment and openness. I look forward to enjoying a very productive working relationship with them.

I believe that we have been maintaining a strong effort in the area of Federal food assistance. With the Hunger Prevention Act of 1988, we increased food stamp benefits, made numerous improvements in the program, and extended the TEFAP program. This past fall, Congress reauthorized the child nutrition programs and approved new provisions designed to expand access to meal programs for low-income children and to increase participation in WIC. A number of our witnesses here today made important contributions to the development of these two measures, and they have my thanks.

As Congress begins its work on reauthorizing the Food Stamp Program, we are looking for ways to break down barriers to participation and to simplify the program, so that it is more accessible to potential beneficiaries and easier and less costly to administer. I also foresee a continued role for the TEFAP program, which has proven to be a valuable addition to the network of Federal nutrition programs.

The budget constraints within which we must operate are very strict. Still, we in Congress want to do whatever we can to ensure the continued effectiveness of the Federal food assistance effort. Averting hunger and malnutrition must always be one of our top domestic priorities. And there is certainly more work to be done. There are still too many pockets of poverty where people aren't getting the food they need. And we face new challenges to our ability to provide for the most vulnerable members of our society. To cite just two examples—recent years have seen the growth of the homeless population, a development which has required us to adjust our Federal nutrition programs to meet the needs of people with no place to store or prepare food. And we have seen the emergence of illegal drugs so powerful that they destroy the maternal instinct, leaving addicts unwilling and unable to nurture their children.

I hope that the congressional effort to deal with our Nation's nutrition needs will be characterized during the 1990's by the same spirit of bipartisanship that has enabled us to make so much progress in curbing hunger and malnutrition in America over the past two decades. Once again, I want to welcome our witnesses, and I look forward to hearing their testimony.

Prepared Statement of Hon. Rudy Boschwitz, a U.S. Senator From Minnesota

Mr. Chairman, I am pleased that we are holding this hearing today on nutrition issues relating to the 1990 farm bill. It's important that we take a close look at the nutrition programs that need to be reauthorized this year.

Back in 1983 I joined the Nutrition Subcommittee because of my growing concern over the problem of hunger and my interest in the ways the Federal Government can address that problem. I have been a strong supporter of nutrition programs such as food stamps, WIC, school lunch, and school breakfast. These existing Federal nutrition programs have provided vital nutritional assistance to millions.

The nutrition programs have a very bipartisan tradition here in the Senate. Another Minnesotan—Hubert Humphrey—and Senator Bob Dole began many of the nutrition programs. In the Agriculture Committee, we continue in that bipartisan coalition on nutrition issues.

Today we'll focus primarily on the Food Stamp Program. Serving about 18 million people with expenditures of more than $15 billion, this program really is our first line of defense against hunger in America. I'm hopeful that some of the testimony will address the effectiveness of the program. I am also interested in hearing about how we can further simplify this program and better coordinate it with other low-income assistance programs.

Another program facing reauthorization, which will not be reviewed as extensively today, is the Temporary Emergency Food Assistance Program (TEFAP). This program, started by President Reagan back in 1981, has proven to be quite popular and has served upwards of 15 million Americans. Undoubtedly, this program will be reauthorized as part of the 1990 farm bill.

We'll also hear from the American School Food Service Association (ASFSA). Several Minnesotans are in town for the ASFSA annual Legislative Action Conference. I'm pleased that we'll hear an update from this group. Last year we made several improvements in the school lunch and breakfast programs in the Child Nutrition and WIC Reauthorization Act.

One of the primary concerns that ASFSA will raise is President Bush's proposal to reduce financial support for the school lunch program. While this year's proposal has a new twist to it, I must again note my opposition to the funding cut. Reductions in Federal support for school lunch would likely lead to schools dropping out of the program altogether. Then poor children, who would not have access to a nutritious lunch, would suffer the most. We must recall that the school lunch program was created as a broad-based program of nutritional support for all children.

Again, I am pleased that we are holding this hearing today, and I look forward to hearing testimony about several important nutrition programs.

Prepared Statement of Hon. Slade Gorton, a U.S. Senator From Washington

Hunger is a problem encountered daily by too many Americans. Hunger haunts people in poverty areas and also affects the working poor. It is neither a rural nor suburban problem, but crosses all sections of America, ages, and lines of ethnicity.

This year, Congress will address a number of Federal programs that affect the homeless, the hungry and those in need of medical care. Today, we are here to discuss government's role in reducing hunger in America in hopes of making all citizens of the United States healthy, productive individuals. In particular, I wish to address the Food Stamp and Food Distribution Programs that are offered by the U.S. Department of Agriculture.

Congress will be looking at a number of revisions to the Food Stamp Program in 1990. The program's authorization expires on September 30, 1990, and before it is reauthorized I expect this program will undergo tremendous scrutiny and possible change. Among those issues likely to be discussed are eligibility requirements for participation, the benefits the program provides to those in need, how to administer the Food Stamp Program in the face of a declining budget while maintaining effectiveness and integrity, and finally problems relating to employment and training activities. The Food Stamp Program is clearly a vital program—it benefits nearly 19 million people. Mr. Chairman, I look forward to further discussions on this issue.

Among the Food Distribution Programs widely utilized in Washington State are Soup Kitchens, the Temporary Emergency Food Assistance Program (TEFAP) and the National School Lunch Program. In fiscal year 1989, special commodities purchased for Soup Kitchens in Washington State consisted of approximately 1.5 million pounds reaching over 10,000 clients in 93 Soup Kitchens statewide. Through TEFAP, we have distributed a total of 6.9 million pounds of commodities to more than 828,000 households. Both of these programs have made significant contributions to the welfare of residents of the State of Washington.

The National School Lunch Program has also assisted many students who might otherwise not see their nutritional needs fulfilled. In order for a child to learn, he or she must be adequately fed. Failing to sufficiently feed, and therefore educate a child, will only bring hardship in the future.

In addition, Washington State agricultural producers have contributed substantially to the National School Lunch Program. The commodities most often used in the lunch program include apples, pears, canned pears, apple sauce, fruit cocktail, potatoes and peas. All of these commodities are produced in Washington.

Mr. Chairman, we must provide food for those who are less fortunate and find themselves in need of assistance. As a member of the Agriculture Committee, I look forward to discussions on how to efficiently get help to those in need and to continue to reduce hunger in the United States.

The CHAIRMAN. I wonder, Senator Kerrey, if you would mind if we went first to Senator Sasser and Senator Domenici, who are supposed to be at another committee meeting, but made a special effort to be here for this.

Senator KERREY. Well, can I get back to you? [Laughter.]

No, I don't mind. Go ahead.

The CHAIRMAN. Senator Sasser and Senator Domenici, please come on up.

I also note for the record that there is a statement by Congressman Jaime Fuster of Puerto Rico, which will be included in the record right after the statements of our two colleagues.

[The prepared statement of Mr. Fuster can be found on pp. 25-26.]

If we could hear from—you don't have to use all the chairs. [Laughter.]

Senator SASSER. Well, Senator——

The CHAIRMAN. I mean, I know you carry a lot of weight in the Senate, but you don't have to use two chairs.

Senator DOMENICI. We will put the chairman in the middle.

Senator SASSER. Actually, Senator Domenici did not want to be on my left. [Laughter.]

The CHAIRMAN. I can't remember a time when he has been. [Laughter.]

We will put you in there as a neocentrist, Senator Sasser.

Senator SASSER. Well, thank you, Mr. Chairman, and although Senator Domenici and I do have another pressing engagement, we do not want to impinge on Senator Kerrey's time here. If he has a statement he wishes to make, we would like to hear it.

The CHAIRMAN. Would you like, then, to go, Senator?

Senator KERREY. No. I can present my statement as a question when one of the witnesses comes up.

Senator SASSER. Well, thank you, Senator, and I am sure Senator Domenici and I will read your statement in the record with great interest at a later date.

STATEMENT OF HON. JIM SASSER, A U.S. SENATOR FROM TENNESSEE

Senator **Sasser**. I want to thank you, Mr. Chairman, and the distinguished ranking member, Senator Lugar, for permitting me to appear today with Senator Domenici before the Senate Committee on Agriculture.

The hearing today deals with one of the most compelling domestic issues of our time, and that is hunger in America. Senator Domenici and I convened a hearing on this same subject before the Senate Budget Committee last week, and some of the testimony that we received there was indeed compelling, because there is no doubt that hunger is taking its toll today on the children of this country.

Consider these statistics, which frankly I find shocking. The United States ranks 19th in the world in infant mortality. In the mortality rate for children under the age of 5 years, we rank 22d, and in low birth weight babies we rank 19th.

So, Mr. Chairman and distinguished members of this committee, if nations are judged by how they treat the less fortunate of their citizens, these numbers represent, I believe, an index of shame for the United States of America.

Millions of American children are either hungry or at nutritional risk and of these children here in this country 2 to 5 million may have severe hunger problems.

In my native State of Tennessee, many children and families experience the problem of hunger each and every day. I have actually seen this with my own eyes, and taken testimony from others in the eastern mountainous areas of my State. And the children who have accompanied these mothers have also added to that testimony.

In my State 82,000 people participate in the Women's, Infant's and Children's Feeding Program. Another 80,000 women, infants and children are eligible for benefits, but cannot be served. So we are really getting, in my State, to about half the people who are eligible.

Over a half million people in my State receive food stamps so that they may have adequate nutrition, and 61 percent of these recipients are families with children. The average per-person benefit under this program is only 65 cents per meal.

In the State of Tennessee 330 temporary emergency food assistance centers serve more than 750,000 meals annually, many to distressed families with children. And I might say, Mr. Chairman, I have been in some of these distressed assistance centers and I have seen with my own eyes father, mother, and children coming through there to be fed.

Currently, Tennessee serves some 138,000 children, mostly from low-income families, are served by the School Breakfast Program, but many, many more children could be served and need to be served.

We can, and must do more to combat hunger not only in this Southeastern State that I represent, but also in the Nation.

In the next few days, I intend to offer major anti-hunger legislation, along with Senator Domenici and along with you, Mr. Chairman. This will be the single largest expansion of anti-hunger efforts in this country in more than a decade.

The key features of the legislation that we will be introducing are as follows:

Number one, funding for the WIC program would be increased by $150 million per year for the next 4 years. Consequently, all eligible women and children would be served by the program by the mid-1990's, and I think that is really a forward step.

Number two, more food stamp benefits would be directed to families with excessively high housing costs. Three out of 10 poor households, or 30 percent, pay more than 70 percent of their income on housing costs, and this run-up in housing costs is literally killing the working poor in this country. Currently, these high housing costs substantially reduce benefits for many low-income families.

Number three, basic food stamp benefits would be raised to reflect the actual cost of food, and thereby prevent benefits from running out before the end of the month. And let us bear in mind that 83 percent of all food stamp benefits go to families with children.

Number four, low-income rural households would not be penalized as much for their automobiles. We now find that they are penalized for owning automobiles even though these rural households must rely on these automobiles to drive in to do essential things like working, shopping, going to medical facilities. And under our program, they would not be penalized as much for possessing an automobile.

Number five, the Temporary Emergency Food Assistance Program would be reauthorized to continue the distribution of emergency food to households in need, and other supplemental commodity food programs would also be continued.

This anti-hunger initiative, as well as other measures that might be pursued by this committee, are long overdue, as you have just so eloquently stated, Mr. Chairman. It is my intention, along with my colleague, Senator Domenici, to ensure that the funds required for this anti-hunger program will be contained in the 1991 budget resolution.

I am sad to say that one-fifth of the children of this Nation live in poverty. Some have said that statistics would indicate that as many as 9 million children here in the United States experience hunger in their daily lives. Poor children without enough food to eat need our help now. And, certainly, Mr. Chairman, I think this will be a cost-efficient, cost-effective measure for us to take.

I was struck by a number that we developed in our hearings before the Budget Committee the other day. We found that in my State of Tennessee, the average 1-year cost of the WIC program for a low-income mother and newborn baby was only $787.

Conversely, we found that the average cost of maintaining a low birth weight baby in Vanderbilt Hospital in Nashville, Tennessee, was $23,708. So it costs us $787 to provide the nutrition to forestall the disaster of a low birth weight baby, but if we don't provide that assistance, then it costs us $23,708 to maintain that low birth weight baby, who may continue to have handicaps for the rest of its life.

So poor children do need enough to eat. They need food to grow, they need food to learn, and they need food to be productive. Our country and our economy will most surely need these children in the future, and we will most surely pay the penalty if we don't meet their needs today.

Thank you, Mr. Chairman.

[Applause.]

[The prepared statement with attachments of Senator Sasser follow:]

JIM SASSER, TENNESSEE, CHAIRMAN

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United States Senate
COMMITTEE ON THE BUDGET
WASHINGTON, DC 20510-6100

STATEMENT OF SENATOR JIM SASSER

"HUNGER IN AMERICA"

SENATE AGRICULTURE COMMITTEE

FEBRUARY 27, 1990

TESTIMONY BEFORE SENATE COMMITTEE ON AGRICULTURE

MR. SASSER:
THANK YOU, MR. CHAIRMAN.

LAST YEAR I TESTIFIED BEFORE THE SUBCOMMITTEE ON NUTRITION OF THIS ESTEEMED COMMITTEE ON THE ROLE OF THE GOVERNMENT'S NUTRITION PROGRAMS IN THE HEALTH, EDUCATION AND DEVELOPMENT OF CHILDREN. THROUGH SUBSEQUENT EFFORTS OF OUR TWO COMMITTEES, THE CONGRESS ENACTED A NEW CHILD NUTRITON BILL THAT INCLUDED EXPANSIONS IN THE SCHOOL BREAKFAST AND SUMMER FOOD PROGRAM AS WELL AS A LARGE FUNDING INCREASE FOR THE WOMEN, INFANTS AND CHILDREN (WIC) PROGRAM LAST YEAR.

I APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE THE FULL COMMITTEE TODAY BECAUSE I BELIEVE THIS YEAR AFFORDS US THE OPPORTUNTIY TO GO FAR BEYOND OUR PAST ACHIEVEMENTS.

TODAY'S HEARING DEALS WITH ONE OF THE MOST COMPELLING DOMESTIC ISSUES OF OUR DAY -- HUNGER IN AMERICA.

MR. CHAIRMAN, LET ME BRIEFLY SKETCH OUT WHAT "HUNGER IN AMERICA" MEANS RELATIVE TO THE CIRUCUMSTANCES OF OTHER INDUSTRIALZED COUNTRIES THAT WE COMPARE OURSELVES WITH.

IN INFANT MORTALITY, WE RANK 19TH IN THE WORLD. IN THE MORTALITY RATE FOR CHILDREN UNDER 5, WE RANK 22ND. IN LOW BIRTHWEIGHT BABIES WE RANK 19TH. AND IN CHILDHOOD POVERTY, WE RANK 8TH .... OUT OF 8 INDUSTRIALIZED NATIONS. I REPEAT, OUT OF 8 OF THE MOST INDUSTRIALIZED NATIONS THE UNITED STATES OF AMERICA IS DEAD LAST IN THE INCIDENCE OF CHILDHOOD POVERTY.

MR, CHAIRMAN, IF NATIONS ARE JUDGED BY HOW THEY TREAT THE LEAST FORTUNATE OF THEIR CITIZENS, THESE NUMBERS REPRESENT AN INDEX OF SHAME FOR ALL OF US.

RIGHT NOW, ONE OUT OF EVERY FIVE CHILDREN IN AMERICA LIVES IN POVERTY. (CHART 1)

VERY YOUNG AND MINORITY CHILDREN FARE EVEN WORSE. FOUR OF EVERY NINE BLACK CHILDREN ARE POOR, AND ONE OUT OF EVERY FOUR CHILDREN UNDER THE AGE OF THREE IS POOR.

AND WHERE THERE IS POVERTY, THERE IS MOST SURELY HUNGER.

RECENT STUDIES INDICATE THAT MORE THAN 9 MILLION AMERICAN CHILDREN ARE HUNGRY OR AT NUTRITIONAL RISK. (CHART 2) 2 TO 5 MILLION OF THESE CHILDREN MAY HAVE SEVERE HUNGER PROBLEMS.

IN MY STATE OF TENNESSEE, WE HAVE MANY CHILDREN AND LOW INCOME FAMILIES THAT EXPERIENCE THE PROBLEM OF HUNGER.

NEARLY 82,000 PEOPLE PARTICIPATE IN THE WOMEN, INFANTS, AND CHILDREN FEEDING PROGRAM. ANOTHER 80,000 ARE ELLIGIBLE FOR BENEFITS BUT HAVE YET TO BE SERVED.

523,000 PERSONS RECEIVE FOOD STAMPS IN THE STATE OF TENNESSEE, 61 PERCENT OF ALL PEOPLE RECEIVING THESE BENEFITS ARE FAMILIES WITH CHILDREN. THE AVERAGE PER PERSON BENEFIT UNDER THIS PROGRAM IS $59 PER MONTH OR LESS THAN 65 CENTS PER MEAL.

WE HAVE 330 TEMPORARY EMERGENCY FOOD ASSISTANCE CENTERS IN THE STATE. THEY SERVE 750,000 MEALS ANNUALLY, MANY TO FAMILIES WITH CHILDREN FACING ECONOMIC EMERGENCIES.

CURRENTLY, TENNESSEE SERVES SOME 138,000 CHILDREN MOSTLY FROM LOW INCOME FAMILIES THROUGH THEIR SCHOOL BREAKFAST PROGRAM. CLEARLY MANY, MANY MORE CHILDREN COULD BE SERVED.

SO TENNESSEE AND THE NATION WOULD BE WELL SERVED BY AN EXPANDED ANTI-HUNGER INITIATIVE.

IN THIS REGARD, I WOULD LIKE TO TAKE THIS OPPORTUNITY TO OFFER TO THE COMMITTEE A LEGISLATIVE PROPOSAL THAT I AND SENATOR DOMENICI WILL FORMALLY SUBMIT TO THE SENATE IN COMING DAYS AHEAD.

IF APPROVED, OUR BILL WOULD RESULT IN THE SINGLE LARGEST EXPANSION OF ANTI-HUNGER EFFORTS IN THIS COUNTRY IN MORE THAN A DECADE. IT WOULD HELP RESTORE THE FEDERAL SAFETY NET TO PREVENT OUR CITIZENS FROM FALLING INTO THE TRAGIC CYCLE OF POVERTY, HUNGER AND HOMELESSNESS THAT HAS BECOME MORE COMMONPLACE IN RECENT YEARS.

THE BASIC OBJECTIVES OF OUR PROPOSAL ARE RATHER SIMPLE:

1. FOCUS ON CHILDREN AND THEIR FAMILIES, THE POOREST AND HUNGRIEST SEGMENT OF THE POPULATION.

2. TARGET POOR FAMILIES WITH EXCESSIVELY HIGH HOUSING COSTS WHO ARE FACING THE IMPOSSIBLE TRADEOFF BETWEEN PAYING FOR FOOD AND PAYING FOR SHELTER.

3. ENCOURAGE FAMILIES AND INDIVIDUALS WHO RECEIVE GOVERNMENT SUPPORT TO SEEK ALTERNATIVE SOURCES OF INCOME THROUGH WORK OR CHILD SUPPORT COLLECTIONS.

4. IMPROVE ACCESSIBILITY TO FOOD PROGRAMS AMONG LOW-INCOME RURAL FAMILIES AND OTHER GROUPS THAT ARE DIFFICULT TO REACH.

5. SUPPORT COMMUNITY-BASED ANTI-HUNGER ACTIVITIES.

IN BRIEF, OUR PROPOSAL WOULD ACHIEVE THESE OBJECTIVES IN THE FOLLOWING WAYS:

1. FUNDING FOR THE WIC PROGRAM, WHICH CURRENTLY SERVES ONLY ABOUT 55 PERCENT OF ELIGIBLE LOW-INCOME WOMEN AND CHILDREN, WOULD BE INCREASED BY $150 MILLION PER YEAR ABOVE CURRENT SERVICE

LEVELS FOR FIVE YEARS.

THE CHART ILLUSTRATES WHY WE MUST DEVOTE MORE RESOURCES TO THIS COST-EFFECTIVE PROGRAM. AT VANDERBILT UNIVERSITY HOSPITAL IN TENNESSEE, IT COSTS AN AVERAGE OF $23,708 TO KEEP A NEW BORN BABY IN THE EMERGENCY NEONATAL CLINIC. YET, FOR ONLY $787 IN TENNESSEE, WE CAN PROVIDE 12 MONTHS OF PRENATAL AND POST-PARTUM ASSISTANCE TO A MOTHER PLUS SIX MONTHS OF SUPPORT FOR HER BABY.

2. RULES FOR THE FOOD STAMP PROGRAM WOULD BE CHANGED IN ORDER TO INCREASE ASSISTANCE FOR FAMILIES WITH EXCESSIVELY HIGH HOUSING COSTS. RECENT DATA INDICATE THAT THREE OUT OF TEN POOR HOUSEHOLDS IN AMERICA PAY MORE THAN 70 PERCENT OF THEIR INCOME ON HOUSING EXPENSES.

3. IN ORDER TO ENCOURAGE SINGLE-PARENT FAMILIES TO SEEK CHILD SUPPORT AND TO SIMPLIFY CURRENT RULES, FAMILIES ON AFDC COULD RECEIVE $50 IN CHILD SUPPORT PAYMENTS EACH MONTH WITHOUT PENALIZING THEIR FOOD STAMP BENEFITS.

4. TO ASSIST LOW-INCOME RURAL HOUSEHOLDS THAT REQUIRE MOTOR VEHICLES FOR TRANSPORTATION, THE CURRENT LIMIT ON THE VALUE OF THESE VEHICLES WOULD BE RAISED SO THAT MORE NEEDY HOUSEHOLDS CAN QUALIFY FOR FOOD STAMPS. NEW PROCEDURES FOR BREAKING DOWN THE BARRIERS TO PARTICIPATION IN RURAL AREAS WOULD ALSO BE AUTHORIZED AND SUBSIDIZED.

5. BASIC FOOD STAMP BENEFITS WOULD BE INCREASED IN ORDER TO HELP HOUSEHOLDS WHO CURRENTLY DO NOT HAVE ENOUGH FOOD FOR THE ENTIRE MONTH. THIS WOULD PRIMARILY HELP CHILDREN WHO CURRENTLY RECEIVE 83 PERCENT OF FOOD STAMP BENEFITS.

6. THE TEMPORARY EMERGENCY FOOD ASSISTANCE PROGRAM (TEFAP) WOULD BE REAUTHORIZED TO CONTINUE THE DISTRIBUTION OF EMERGENCY FOOD TO HOUSEHOLDS IN NEED.

7. IN ADDITION, I HOPE TO REACH AGREEMENT WITH SENATOR DOMENICI ON SOME TARGET EXPANSIONS IN THE FOLLOWING CHILD NUTRITION PROGRAMS TO BETTER MEET THE NEEDS OF LOW-INCOME AND WORKING POOR FAMILIES: SCHOOL BREAKFAST, FREE MEALS FOR HEAD START CHILDREN, FOOD SERVICE FOR AFTER-SCHOOL CHILD CARE, AND FOOD SERVICE FOR HOMELESS PRESCHOOLERS.

FINALLY THE PROVISIONS IN THE SASSER-DOMENICI HUNGER INITIATIVE WOULD BE DELAYED UNTIL 1992 IF THERE IS A SEQUESTER IN 1991.

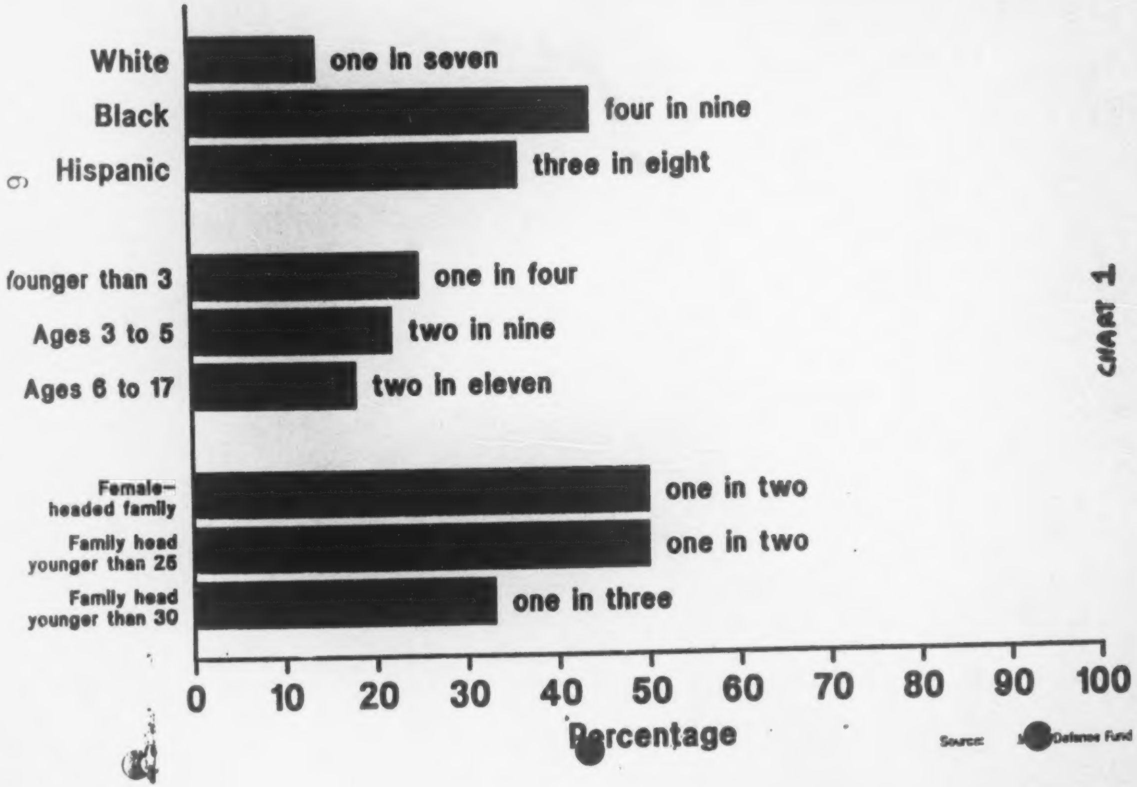
AS CHAIRMAN OF THE SENATE BUDGET COMMITTEE, I AM ALREADY AWARE OF THE FISCAL CONSTRAINTS ON ANY NEW AND EXPANDED INITIATIVE. THAT IS WHY WE MUST BE SO CAREFUL IN ESTABLISHING PRIORITIES AND TARGETING OUR RESOURCES TO SERVE THOSE MOST IN NEED.

I INTEND TO WORK HARD TO PUSH ANTI-HUNGER LEGISLATION THROUGH THE CONGRESS THIS YEAR AND TO PROVIDE THE FUNDS IN THE 1991 BUDGET RESOLUTION WE ARE NOW PREPARING IN MY COMMITTEE. I INTEND TO MAKE THIS INITIATIVE ONE OF MY HIGHEST PRIORITIES THIS YEAR.

WHEN ONE-FIFTH OF OUR CHILDREN AND ONE-SEVENTH OF OUR NATION AS A WHOLE LIVE IN POVERTY, WE CANNOT AFFORD TO STAND IDLY BY. WE MUST MEET OUR RESPONSIBILITIES, PARTICULARLY TO THESE POOR CHILDREN WITHOUT ENOUGH FOOD TO EAT. THEY NEED US NOW. AND IN THE FUTURE, OUR NATION AND OUR ECONOMY WILL BE NEEDING THEM.

CHART 1

The Chances of a U.S. Child Being Poor



Source: [illegible] Defense Fund

CHART 2

CHILDREN IN AMERICA

POOR

12.4 MILLION

"HUNGRY"

2 - 5 MILLION

"HUNGRY" OR "AT RISK OF HUNGER"

MORE THAN 9 MILLION

CHART 3

AVERAGE COST OF MAINTAINING LOW-BIRTHWEIGHT BABY

(Intensive Care Clinic, Vanderbilt University
Children's Hospital, Nashville, TN)

$23,708

AVERAGE ONE-YEAR COST OF WIC PROGRAM FOR A LOW-INCOME MOTHER AND NEWBORN BABY

(Tennessee)

$787

OTA: SAVE BETWEEN $14,000 AND $30,000

FOR EVERY LOW-BIRTHWEIGHT BABY

THAT IS AVERTED

February 27, 1990

SASSER/DOMENICI/LEAHY ANTI-HUNGER INITIATIVE

PRIMARY OBJECTIVES

1. **CHILDREN:** Focus on children and their families, the poorest and hungriest segment of the population.

2. **HOUSING AND HOMELESSNESS:** Target poor families with excessively high housing costs who are facing the impossible tradeoff between paying for food and paying for shelter.

3. **CHILD SUPPORT:** Encourage families and individuals who receive government support to seek alternative sources of income through work or child support collections.

4. **BARRIERS TO PARTICIPATION:** Improve accessibility to food programs among low-income rural families and other groups that are difficult to reach by simplifying rules and expanding outreach.

5. **VOLUNTEER ACTIVITIES:** Support community-based anti-hunger activities and emergency food distribution.

LEGISLATIVE PROPOSALS

1. **WIC:** *Increase funding for the Women, Infant and Children (WIC) feeding program by $150 million per year above the CBO current services levels.*

   Currently, the WIC program serves only about 55-60 percent of the eligible low-income mothers and children at nutritional risk. By steadily increasing WIC funding over the next five years, nearly the entire eligible population could be served.

2. **FOOD STAMPS AND HOUSING COSTS:** *Remove the current cap on the "excess shelter deduction" so that all eligible households can deduct the full amount of their excess shelter costs for determining the amount of food stamp benefits.*

   This provision primarily affects families with children. Housing costs are taking up an increasingly large share of the family budget among the poor so that fewer dollars are left over for food.

3. **FOOD STAMPS AND CHILD SUPPORT:** *Allow single-parent families to collect the first $50 of child support per month without penalizing food stamp benefits.*

   This provision encourages families to seek child support as an alternative source of income, decreases long-term dependence on food stamps, and standardizes the rules for participants in both the AFDC and food stamp programs.

Sasser/Domenici/Leahy Anti-Hunger Initiative

4. **LOW-INCOME HOUSEHOLDS AND RELIANCE ON MOTOR VEHICLES:** *Increases the current limit on the value of motor vehicles that may be owned by food stamp households from $4,500 to $5,500 (indexed annually).*

   This provision, which was recommended by President Reagan's Task Force on Food Assistance in 1984, would assist low-income households, particularly in rural areas, who are currently disqualified from food stamps because they own a vehicle for essential transportation to work, shopping and medical facilities.

5. **INCREASE IN FOOD STAMP BASIC BENEFITS:** *Increases benefits from 103 percent to 105 percent of the Thrify Food Plan spread out over 4 years.*

   This expansion would allow benefit levels to better reflect the actual costs of food, which usually exceed projections, and help households get further through the month before running out of food stamps.

6. **REDUCE BARRIERS TO PARTICIPATION IN RURAL AREAS:** *Sets up demonstration projects and requires mail-issuance of food stamps to improve accessibility to to food programs in rural areas.*

   These provisions would expand outreach efforts, improve coordination with other agencies and simplify application procedures. Problems of physical isolation, inadequate transportation, and lack of information compound the problems of the rural poor who have difficulty accessing government benefits and services.

7. **EMERGENCY FOOD ASSISTANCE:** *Reauthorizes the Temporary Emergency Food Assistance Program (TEFAP) and continues mandatory purchase requirement.*

   Requires that USDA provide $120 million per year worth of commodities, above and beyond any available surpluses, to state and local food distribution centers.

8. **MISCELLANEOUS PROVISIONS:** *Reauthorizes and strengthens other federal food assistance programs.*

   Reauthorizes the Commodity Supplemental Food Program which distributes surplus commodities to low-income women, infants, children and elderly. Reauthorizes the Nutrition Assistance Program for Puerto Rico and indexes funding levels consistent with the CBO baseline. Strengthens child support provisions for food stamp recipients (specific legislative proposal to follow). Food stamp provisions would take effect on January 1, 1991 but would be delayed until October 1, 1992 if there is a final sequestration order for 1991.

9. COSTS: $535 million in 1991; $2.4 billion over three years.

SASSER/LEAHY PROPOSALS FOR FURTHER CONSIDERATION

CHILD NUTRITION IMPROVEMENTS FOR LOW-INCOME CHILDREN AND SUPPORT FOR COMMUNITY-BASED ANTI-HUNGER ACTIVITIES: *Provides targeted expansions of existing child nutrition programs to better meet the nutritional needs of children from low-income and working poor families.*

- Provides a snack to low-income children who participate in after-school child care at schools;
- Provides financial incentives for more schools to institute school breakfast programs;
- Expands pilot projects for providing food assistance to homeless pre-schoolers who are currently left out of existing nutrition programs;
- Makes Head Start children automatically eligible for free meals.
- Increases the authorized funding level for the Community Food and Nutrition Program to enhance state and local anti-hunger efforts and develop new approaches to meeting the needs of low-income people, especially children.

The CHAIRMAN. Thank you very much. Notwithstanding the controversy your statement created in the audience, Senator Sasser, we—and I must say this is an area where, again, the kind of support and concern expressed across the country among professionals and nonprofessionals is a growing one and an important one. I appreciate what you said especially about the WIC program.

Senator Domenici, I must tell you again how pleased I am to have you here. You and I have been friends for a long time and, again, I admire your work on this issue. I think it is, again, an example of the concern that transcends any politics.

You and Senator Sasser both having served as Chairman of the Budget Committee, both having to grapple with the problems of a shrinking budget, and both of you joining together on this issue is a good sign not only for the two of you, but also for the country.

Senator Domenici, I yield to you.

STATEMENT OF HON. PETE V. DOMENICI, A U.S. SENATOR FROM NEW MEXICO

Senator DOMENICI. Thank you very much, Mr. Chairman and members of the committee. Let me just say at the outset it is probably well known by members of the committee, and certainly the Senate, and perhaps some of my friends in New Mexico and in the country, that this Senator is regularly concerned about economic growth and prosperity in the country.

My very deep concern about the next decade is that our economic vitality will dwindle and not be competitive with countries that have borrowed our system and are doing better. And so, Mr. Chairman and members of the committee, I generally will support in the budget those concepts that one might call growth items—research and development, items that will make us competitive.

Having said that, there is no question that while we are busy trying to do that and make sure that the American economic system which supports about 85 percent of our people in their daily lives, is a growing and prospering system—there is no excuse for not promoting good nutrition programs that serve our people. Some are currently about as good as we can design, Mr. Chairman and Senator Lugar.

We used to hear a lot about food stamp fraud, and the like. But, clearly, we have developed in three or four basic programs a very good system of delivering nutrition to the needy people of this country.

Now, today, neither the chairman nor I have any suggestions about some dramatic reform. We are here to suggest that the three programs we have on the books ought to be reauthorized and, to some extent, the Food Stamp Program improved so that it meets the reality of today's problems for our poor people.

So let me just quickly tell you what I support, what I hope you will support, and what I pledge to help the chairman obtain in a budget. If we get a budget, we want to put in enough for this effort.

Let me tell you right off, my estimate is, in the first year, Mr. Chairman, that the recommended changes will cost $558 million in 1991, and about $5 billion over 5 years.

I think we have to do that. It is not like we are here without some pretty good programs and a good base. We just want to take some areas that are patently no longer right and fix them.

So let me start with WIC. We don't need to do any substantive changing there. We need to raise the authorized level a bit, as stated by the chairman, and then in appropriations we have to push hard to continue the upward level of expenditures on this program.

We have not received from Presidents in the past requests for full funding of WIC. But, Mr. Chairman, we in the U.S. Congress have increased its funding. It has gone from about $800 million, Senator Gorton, 4 years ago, to $2.1 billion. We think it should continue up at about $150 million a year so that we pick up more of the population each year that is entitled to that program, and make it consistent with the management capabilities of our States.

It is an excellent program because the nutrition is almost prescribed, almost prescription-made. Therefore, it is used for the purposes of helping either a pregnant woman soon to be a mother or a mother with small children. And you cannot use the nutrition prescribed for anything but that unless you want to dispose of some very specialized type foods. We think it is hitting the mark. That is one.

The second one, in the past much criticized—I don't believe entitled to the criticism that some gave it—is the Food Stamp Program. Frankly, it is the backbone of our way of helping the needy in our country with the basic commodity of nutrition.

Certainly, if you find some ways to make it more efficient or more on the mark, you are not going to find the chairman and I objecting to that. But, essentially, what we have found are three or four things that no longer work and are indeed counterproductive.

If you want to review a current résumé of housing in the United States, called "A Place to Call Home, the Crisis in Housing for the Poor," Center on Budget and Policy Priorities, Low-Income Housing Information Service, April 1989, you will note that there is a section indicating that 45 percent of all the poor-renter households pay at least 70 percent of their income for housing costs.

Now, what we have is a very low, almost draconian limitation on what you can spend for housing. If it costs you more than that, you lose in food stamps, and that is a circuitous thing that works to the detriment of the needy.

We would suggest you take the cap off. What they have to pay for housing, they have to pay. We assume there is a market, although perhaps not as good as we would like, but we think we ought to experiment with taking the cap off, just like we have experimented with the cap.

Incidentally, that is not terribly expensive, but it will help about 17 percent of those who are on food stamps today get a higher level of food stamps rather than having to pay most of their resources in shelter and get less and less for food stamps.

One hears people as the world becomes freer say what they would really like, and frequently one hears them say that they would like a house and a car. Incidentally, I just spoke about the house and now I will speak about the car.

Frankly, what we have done through the Food Stamp Program is we say to poor people, if you have a car it is an asset, and if the asset is more than $4,500, then you begin to have your food stamp entitlement reduced. We believe that asset threshold is too low. People need a car to get around, just like they need a house to live in. And so we recommend that we raise that to $5,500 and index it to the CPI thereafter.

We think that the first $50 of child support payments each month should not cause a lowering of food stamp benefits. That just puts this program in tune with AFDC. It puts them on a parity, and we think that is fair, and we also think it is an incentive rather than a disincentive to cooperate.

In addition, we think we should start gradually raising the percent per year in the basic food stamp benefits to more closely reflect costs of food, about a half a percent a year. That is the most costly provision. It will cost about $1 billion over 5 years, but that is sort of the underpinning of the benefits distributed to each household.

I am going to stop here, other than to say that the Temporary Emergency Food Assistance Program clearly ought to be reauthorized, and the Commodity Supplement Food Program, which work in tandem and in harmony, ought to be reauthorized, and hopefully funded at the ~~maximum~~ level.

Having said this, let me suggest that obviously there are other nutrition programs. There is one that concerns most of the people in this audience which has to do with using our schools and the cafeterias therein as a central source of food distribution and to supply the needy children therein with food. We are certainly not addressing that in our testimony. We know you will be, and we understand that that will be the subject of much more of your discussion today.

I want to thank Chairman Sasser for the hearings we held that enlightened me, and for permitting me to be a cosponsor with him and others on a bill which we think is going to significantly increase at the most reasonable cost the nutrition for our most needy people in this country, and help those who have very young children or who are expecting and with child to be more healthy, thus saving money rather than costing money, and providing health once the new child is born.

Thank you very much, Mr. Chairman and members of the committee.

The CHAIRMAN. Well, thank you very much, Senator Domenici, and I really cannot thank both you and Senator Sasser enough for the efforts you have made because we do need the extra money. The Sasser-Domenici-Leahy et al. bill will build on the 1988 Hunger Prevention Act, and that was the first major hunger prevention act in about 10 years. I can't thank you enough for the help because, obviously, no matter how much we talk about it, unless we put the money in there it is not going to work.

I have no questions, but I appreciate your being here.

As I mentioned earlier the prepared statement of Congressman Jaime Fuster of Puerto Rico will be inserted at this point in the record.

[The prepared statement of Mr. Fuster follows:]

PREPARED STATEMENT OF HON. JAIME B. FUSTER, RESIDENT COMMISSIONER, COMMONWEALTH OF PUERTO RICO

Mr. Chairman and distinguished members of the committee:

Mr. Chairman, I want to thank you for holding these hearings in preparation for drafting the 1990 farm bill and for giving me the opportunity to bring to your attention our reaction and concerns regarding those proposals, and those of the President's fiscal year 1991 budget, as they relate to the Commonwealth of Puerto Rico.

Unfortunately, the administration's budget is disappointing as it applies to us in Puerto Rico. It provides very little means to help improve the situation of the very needy among us. I say this even though we in Puerto Rico certainly understand the larger picture—that of budgetary restraints on the national level. As a result, we have one fundamental request to make—that of parity in Puerto Rico's Nutrition Assistance Program, which I will elaborate upon shortly. Allow me to share with you a most glaring defect in the administration's budget as it affects Puerto Rico, and I hope you will join with me in vigorously opposing this proposal.

As astonishing as it is to me and to other Members of Congress who have communicated their concern to me, the administration's budget actually proposes the cutback of Puerto Rico's funding for the food nutrition program from the present $936 million to $825 million and the transfer of that program from the Department of Agriculture to the Department of Health and Human Services. This is totally unwarranted.

What the budget proposal should have done instead was to correct the unconscionable inequity perpetrated on us in 1982, when Puerto Rico was taken out of the national food stamp program and given a limited program that forced us to substantially reduce the level of nutrition payments to the needy in the island and to eliminate 100,000 families from the eligibility rolls. In line with the President's notion of a kinder and gentler nation, it would have been appropriate to return Puerto Rico to parity in nutrition assistance, with outlays at the same level that all other U.S. citizens receive, rather than proposing further reductions in the nutritional help afforded to needy U.S. citizens in Puerto Rico.

At a time when the Nutrition Assistance Program is going to be reauthorized under the farm bill, hopefully at pre-Reagan funding levels, we feel it is ripe to undertake the appropriate change for the Commonwealth of Puerto Rico and its citizens.

So, in our view, Mr. Chairman, Puerto Rico needs to return to full parity in nutrition assistance as we enjoyed it when we fully participated from 1974 to 1982 in the national food stamp program. This return to parity is my one fundamental request.

Although our Nutrition Assistance Program, or NAP as it is called, commendably gives the Commonwealth of Puerto Rico broad flexibility to establish its own food assistance program that is specifically tailored to the needs of its low-income households, the existing limit on our funding is fundamentally unfair.

Puerto Rico currently has both lower benefit levels, resulting in average monthly payments of $52 per person, compared with $77 on the U.S. mainland, and lower cutoffs for eligible income levels for each family size. This is unfair to the 3.5 million U.S. citizens who live in Puerto Rico. Such U.S. citizens residing in Puerto Rico are the only U.S. citizens who do not qualify for or receive full assistance in the Food Stamp Program. At heart, it is a question of equity, of basic social justice. Moreover, by excluding so many persons in 1981, the Congress withdrew the basic nutritional safety net for almost 100,000 needy families in Puerto Rico.

Even today, with our Nutrition Assistance Program funding up to $936 million, that increased level is scarcely adequate. NAP participants in Puerto Rico, which totaled 438,000 households in 1989, even today receive fewer benefits than their counterparts in the mainland United States. A family of four on the mainland can have a gross income of $12,000 a year and still receive maximum monthly benefits of $298. But in Puerto Rico the same family cannot receive NAP benefits if its income is greater than $8,904 and, if eligible, would only receive $199 in benefits—despite the fact that food costs in Puerto Rico are significantly higher than the national average.

The limited nutritional assistance that the needy in Puerto Rico receive is particularly insufficient when you consider that Puerto Rico does not participate in several major Federal assistance programs that also help their counterparts on the mainland, such as Supplemental Security Income, and that Puerto Ricans participate only to a limited extent in various programs for the needy, such as AFDC, Medicare, Medicaid and others.

Thus, there is the unfortunate situation of Puerto Ricans, most of whom are more needy than their counterparts on the mainland, getting fewer benefits for their plight than their companion U.S. citizens elsewhere—compounded by the fact that food costs are higher on an island like Puerto Rico.

The bottom line is that the poor Americans who live in Puerto Rico not only receive food assistance which is grossly inadequate to meet their nutritional needs but also that they are subjected to a form of economic discrimination which other disadvantaged citizens do not experience. So, Mr. Chairman, it is against this backdrop that I strongly urge the return to the same full parity for Puerto Rico in nutrition assistance as we enjoyed in 1974 to 1982 when we fully participated in the national food stamp program.

To this end, Mr. Chairman, the House Interior and Insular Affairs Committee has just recognized the validity of our request by recommending to the House Budget Committee the following language:

"The Committee believes that needy Americans in Puerto Rico should receive Federal assistance for the needy on an equitable basis with other Americans. It notes that the needy in Puerto Rico are also treated inequitably under the other major programs of assistance for the needy.

"The Committee, accordingly, proposes that the nutrition assistance program be continued and that gradual increases in it phase-in equitable treatment of the needy in Puerto Rico. It proposes a fiscal year 1991 level $50 million higher than the present amount (or $987,500,000)."

Finally, and most importantly as regards other social legislation, the Committee recommends that Puerto Rico—and the Americans who inhabit the island—"be treated equitably in any new legislation enacted so that further lack of parity does not have to be confronted."

Mr. Chairman, those are the highlights from the Interior Committee's commendable recommendations to the Budget Committee. I sincerely hope that this committee will be able to honor those recommendations as it formulates its own recommendations regarding the fiscal 1991 budget.

The CHAIRMAN. I will yield to Senator Lugar.

Senator LUGAR. I have no questions, and, Mr. Chairman, a commendation to both of our colleagues and appreciation for your coming today.

Senator SASSER. Thank you.

The CHAIRMAN. Thank you. Anybody else?

[No response.]

The CHAIRMAN. Thank you both very, very much.

Senator SASSER. Thank you, Mr. Chairman, Senator Lugar.

[Applause.]

The CHAIRMAN. Before we go to the panel, I yield to Senator Kerrey, who had yielded his time so that the panel could begin.

STATEMENT OF HON. J. ROBERT KERREY, A U.S. SENATOR FROM NEBRASKA

Senator KERREY. Thank you, Mr. Chairman. I would just briefly say that my sense is that with the changes that have, and will continue to occur in the world, Americans are going to have not just the opportunity, but I suspect a deeply felt obligation to turn again to problems here at home.

I have heard a number of people who have declared a belief, and I happen to share it, that the Nation should once again declare war on poverty. I should point out, having embraced that declaration, that the origin of this war on poverty phrase is that of the philosopher William James, who was commenting on it in observing that in a war there is something rather extraordinary that occurs, and that is that human beings, in moments of bravery, are willing to die for other human beings. Their consciousness no longer includes only themselves. They declare with their actions that they are willing to risk it all for someone else, not just for themselves.

And James, in commenting upon that, said he wished that we had the moral equivalency to war in peacetime. It seems to me that when it comes to this Nation's poor and this Nation's hungry that we in America are going to have to declare the same level of commitment in the 1990's, and it will not be easy.

Though I share the general observations made by the distinguished Senators from Tennessee and from New Mexico, I think that we do have a lot of selling to do to the American people that these programs can help and that we can make them work; that these programs can, as well, be connected to the desire, I think, of most of us to increase our productivity and keep America's economy growing.

The effort must not be seen simply as the Congress voting more money to increase a line of appropriations for food stamps, WIC, school nutrition programs, or any similar program. It must, it seems to me, be seen as an effort on the part of Americans to extend their consciousness to include other people, not just themselves; not just worrying about their own taxes, not just worrying about their own welfare, not just worrying, as Vaclav Havel said to us last week, about their own security, but about the security of other people.

If we respond that way, it seems to me, Mr. Chairman, that with this bill, which I support and I am pleased to cosponsor, we can make this thing work in the 1990's.

The **Chairman**. Thank you very much.

I would call on the first panel of Robert Greenstein, the director of the Center on Budget and Policy Priorities; Tim Grace, the State Director of the Food Stamp Program in the Illinois Department of Public Aid in Springfield, Illinois; and Ellen Haas, the executive director of Public Voice for Food and Health Policy in Washington, D.C.

If you all will please come up here, Mr. Greenstein and Ms. Haas are no strangers to this committee. They have testified here many times before. I like to think to the benefit of the committee with their testimony.

Mr. Greenstein started off with the onerous duty of trying to properly educate new Senators on this committee; I was one of them. He finally gave up on the idea of ever being able to properly educate us and went into the private sector. But some of what you said took, I must say, and we will start, Mr. Greenstein, with you.

STATEMENT OF ROBERT GREENSTEIN, DIRECTOR, CENTER ON BUDGET AND POLICY PRIORITIES, WASHINGTON, DC

Mr. **Greenstein**. Mr. Chairman, thank you, and thanks for the opportunity to be here.

INTRODUCTION

I thought you were about to say that Mr. Greenstein is going to start with the formidable task of trying to follow Senator Sasser and Senator Domenici—particularly, I thought, a particularly eloquent statement on the part of the Senator from New Mexico. And I will try, but I will not be equal to the task, I fear, of following them.

I would also like to say before I start to thank and commend you, Mr. Chairman, and other Senators of this committee, particularly the ranking member, Senator Lugar, for your work over the years; particularly, I am thinking, with the discussion we have just heard of the WIC program, of the leadership you exerted last year, and Senator Lugar exerted, in working for that increase in the WIC program last year, which, as you know, did come to fruition thanks in no small part to your help.

RECENT TRENDS IN POVERTY

Mr. Chairman, hunger and poverty remain at unusually high levels in our country. In 1988, the sixth year of an economic recovery, the poverty rate was higher than in any year of the 1970's—including the deepest recession years of the 1970's. In 1988, the unemployment rate was about at the same level as in 1979. The economy was similar, but 6 million more Americans were poor.

Most disturbing has been the rise in poverty rates among children. You often hear it mentioned that one out of every five American children is poor.

What you may not be as aware of is that if you look at a group we might call the poorest of the poor, those below half of the poverty line, both the number of white children and the number of black children falling into the ranks of the poorest of the poor living below half the poverty line—both of those numbers have risen more than 50 percent since the late 1970's.

Census data tell us that the increase has been as great in rural as in urban areas. One of every eight residents of urban areas is poor; one of every six in rural areas is poor. In fact, the poverty rate in rural areas is nearly as high as the poverty rate in the Nation's central cities.

Not surprisingly, this increase in poverty has been accompanied by an increase in hunger, as the various surveys of increased demand at emergency food agencies and soup kitchens have shown.

Despite that, it may seem surprising at first that the indicators, the survey of hunger, have seemed to show the problem continuing to get worse in the latter part of the 1980's when unemployment has dropped and poverty rates are lower than they were in the early 1980's.

THE ROLE OF RISING HOUSING COST BURDENS

Here, however, I think another critical factor has come into play. It was mentioned by Senator Domenici, it was mentioned by Senator Sasser, and that is the impact of soaring housing costs borne by the poor.

You may find of interest a table that I hope has been provided to you that shows the percentage of income that renters in various income categories are now paying in rent.[2] This is based on census data, and it is reflected in the report, "A Place to Call Home," that Senator Domenici just mentioned and that our Center published last year based on the census data.

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[2] See p. 55 for the table "Percent of Income Spent on Housing by Poor Renters, 1985."

The data show that 45 percent of all poor renters in the United States pay at least 70 percent of their income for housing costs. These high housing cost burdens affect households in rural and urban areas alike and in all sections of the country. For example, more than half of all poor renters in nonmetro areas pay at least 50 percent of their income for housing.

Nor is this something limited to one part of the country. In every census region—Northeast, Midwest, South, and West—high housing cost burdens prevail. For example, there are more poor households paying at least 70 percent of their income for rent in the South than in any other region of the country. One of every three households with housing costs at that level living below the poverty line lives in the South.

Now, Federal housing assistance, along with State and local housing assistance, reaches only 29 percent of the poor renters. Housing is not an entitlement, unlike food stamps, Medicaid, AFDC and SSI.

As a result of these developments, a growing number of poor households find it difficult, if not impossible, to pay the rent and utility bills and still have enough left over, including their food stamps, to buy enough food to last through the month.

The rent and utility bills are fixed; if you don't pay them, you may be evicted. Food is the first item that gets squeezed. If the rent and utility bills are missed, that can lead to shutoffs, evictions and, in some cases, homelessness.

So what this new data from Census tell us, showing high proportions, nearly half of the poor renters paying at least 70 percent of income for rent and utilities—it tells us that large numbers of poor households are averting homelessness only by paying extremely high proportions of their limited incomes for housing, which in turn makes it difficult for them to buy enough food to get an adequate diet and last through the month.

LOOKING TOWARD THE NEW FARM BILL: WHAT TO DO?

In 1988, this committee took steps to address the growth of hunger. It passed the Hunger Prevention Act. More, however, needs to be done. In 1988, for example, although there were 2.6 million more people living below the poverty line than in 1980, 1.1 million fewer received food stamps in an average month.

To address the hunger problems our Nation continues to face, I believe that particular emphasis should be placed on alleviating hunger among poor children. Poverty is higher among children than among any other group. Studies by CBO tell us that from the late 1970's through 1987, the average income of the poorest fifth of families with children in the United States plunged 21 percent after adjusting for inflation. No group in our society fared worse in the 1970's and the 1980's than poor children.

FOOD STAMP REFORMS

In this vein, I would like to suggest consideration of several changes in the Food Stamp Program. My remarks will concentrate on the Food Stamp Program for several reasons.

First, as Senator Sasser mentioned, USDA figures show that 83 percent of all food stamp benefits—or $6 of every $7 of food stamp dollars—go to families with children. The Food Stamp Program is the Nation's leading instrument for addressing hunger among poor children.

Second, the Food Stamp Program serves the neediest population of any food program, one of the neediest of any populations of any program this Government runs. USDA data shows that 94 percent of all households on food stamps have gross incomes below the poverty line; 98 percent of the benefits go to families below the poverty line; half of the benefits go to families with incomes below 50 percent of the poverty line.

Third, the Food Stamp Program is very important in rural areas as well as urban areas. A recent census study looked at a 32-month period and found that during the 32-month period—this may surprise you, Mr. Chairman and members of the committee—during the 32-month period, the Census Bureau reported one of every six residents of rural America received food stamps for at least 1 month.

Now, let me quickly add, only 1 in 25 received food stamps in every month of that period. What that tells us is that substantial numbers of low-income rural households are relying on food stamps to help them get through periods of temporary hardship, and they are doing this without becoming dependent on the Food Stamp Program.

With food stamps up for reauthorization this year, I would suggest consideration of several key food stamp reforms. I am particularly pleased to have learned this morning that I think virtually every item I am about to mention is in either the Leland bill or the Sasser-Domenici-Leahy bill, and in most cases in both bills.

First, as you have just heard, I think it is critical to change the manner in which the Food Stamp Program treats high housing costs. The program is supposed to provide a deduction for housing costs that exceed 50 percent of income so that people don't have to choose between paying the rent and eating.

However, whereas for the elderly and disabled the program allows a full deduction for the amount by which shelter costs exceed half of income, for others, which means families with children primarily, there is not a full deduction provided because it is capped currently at $177 a month.

That means the very families with children who do not receive HUD aid, who have no public or subsidized housing, and who are paying the highest proportions of their income for rent are the very families who are not permitted to fully deduct their excess shelter costs under the current Food Stamp Program. In essence, these families are assumed to have money available for food that actually has to go to pay the rent.

I also think it is highly inequitable that we deny the ability to deduct high shelter costs to families with poor children when we allow it for the elderly and disabled. We should treat the families with poor children in the program in the same manner as we already treat the elderly and disabled by allowing the excess shelter costs to be deducted in full whether you are elderly or not.

That is a provision, I understand, in both of the new initiatives announced this morning. I think nothing is more important in this area before the committee this year. It is critical that we alter the situation where poor families who are paying most of their income for rent have to choose between paying rent and missing meals, between hunger and, in some cases, homelessness.

Second, as Senator Sasser and Senator Domenici mentioned, we need an adjustment in the basic food stamp benefit level. It is currently tied to the Thrifty Food Plan. There is controversy over whether the Thrifty Food Plan is adequate. USDA food consumption surveys show fewer than 1 of every six households whose food expenditures equal the cost of the Thrifty Plan obtain the recommend daily allowances for the basic nutrients.

But it is not my purpose here today to discuss altering the Thrifty Plan. That would be very costly; that would be beyond the budget constraints that are around now. What I do want to note is that the current structure does not allow households in the latter part of the year to buy even the modest Thrifty Food Plan itself.

If you look at the entire 13 years the Thrifty Food Plan has been in existence, we find that in the last half of the fiscal year food costs average about 5 percent above the cost of the Thrifty Food Plan in the previous June. The food stamp benefits are tied to the cost of the Thrifty Plan in the previous June.

Currently, there is a 3 percent adjustment. A 5 percent adjustment is what we need to cover the costs of the Thrifty Plan in the latter half of the year. That also, I understand, is in both the Leland bill and the Sasser-Domenici bill.

I think, as Senator Domenici said, we need to strengthen efforts at self-reliance, and to collect child support payments from absent fathers. And, currently, the Food Stamp Program, sad to say, discourages that. It used to be that in AFDC, if a mother identified the absent father, he was tracked down and the child support was collected. Every dollar she received in child support was kept by the State. If the father thought he was just paying the Government and the mother didn't gain, why should she cooperate?

The House Ways and Means and Senate Finance Committees changed that in 1984. They said we have to have an incentive; the mother gets to keep $50. What they didn't take into account was the Food Stamp Program then counts the $50 and cuts your food stamps. The mother ends up with about $30 left in a net gain.

We have to have a larger incentive for the mother to track down the absent father. We have to be tough about collecting child support. State administrators have long recommended, for simplicity grounds as well, that the two programs be comparable. We need to also disregard that $50 in food stamps so that we have more of an incentive to track down that absent father. And, again, both bills have that.

Both bills also deal with the car issue. The current $4,500 limit on an automobile was written into the Food Stamp Act in 1977 and seemed appropriate at that time. Since then, the Consumer Price Index for used cars has risen 120 percent, and the $4,500 limit has not been changed.

In 1984, President Ronald Reagan's Task Force on Food Assistance said that this was keeping legitimately needy households out of the program, particularly unemployed households in rural areas who need a car to look for work so they can get back on their feet and no longer need food stamps.

The Task Force recommended an adjustment from $4,500 to $5,500. The Senate passed it on one occasion and it was dropped in conference with the House. The House passed it on one occasion and it was dropped in conference with the Senate. Again, it is in both bills this year. Hopefully, we can pass that.

I think other witnesses will talk about some of the other key issues, such as the much-needed simplification in the very complicated definition of a food stamp household we now use and other elements of importance.

OTHER FOOD ASSISTANCE PROGRAMS

I would just like to close by commenting briefly on a few of the other key food programs, in addition to food stamps, wrapping up. I do want to note, Mr. Chairman, that I strongly recommend extension both of the program under which USDA provides foods to soup kitchens and the Temporary Emergency Food Assistance Program. And I would also urge that the $120 million in mandatory food purchases currently provided under TEFAP be continued. Both of these, I think, are steps the administration has recommended.

I would like to note, however, and I think this is one of the more important points I want to make here this morning, that if there are limited resources for expanding food assistance programs and tough choices have to be made—and I think you will have to make tough choices—the Congress should be cautious about committing resources to increase the mandatory food purchases for the TEFAP program.

I say this because USDA studies demonstrate that the clientele served by TEFAP is less needy than that served by food stamps. The USDA studies tell us that 58 percent of all food stamp benefits are provided to households with gross incomes below half of the poverty line.

By contrast, only 31 percent of TEFAP benefits go to households that low; 98 percent of food stamp benefits go to families below the poverty line; only three-quarters of the TEFAP benefits do. Food stamp recipients are more likely to be poor children. TEFAP recipients are more likely than food stamp recipients to be elderly. Of the elderly households who are on TEFAP, some 40 percent have incomes above the poverty line. A table on the next-to-last page of the prepared testimony illustrates some of these figures.[3]

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[3] See p. 53 for the table "Percentage of Benefits Going to Households at Various Income Levels."

In other words, if there are funds to expand the programs above current levels, I would recommend they be concentrated in food stamps rather than in TEFAP, if the committee wishes to place an emphasis on poor children.

I would also say, finally, in closing, because I know you will hear more about it later——

The **Chairman**. And I might point out at that point, unfortunately, we are going to have to cut off the next panel if we don't——

Mr. **Greenstein**. Well, let me just stop, then.

The **Chairman**. Of course, the whole statement will be in the record. As you know, we rely heavily on your expertise in this committee.

[The prepared statement and attached table of Mr. Greenstein follow:]

TESTIMONY OF ROBERT GREENSTEIN
DIRECTOR, CENTER ON BUDGET AND POLICY PRIORITIES
before the
SENATE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

February 27, 1990

I appreciate the opportunity to appear before the Committee today. I am Robert Greenstein, director of the Center on Budget and Policy Priorities here in Washington, D.C. The Center is a non-profit organization that conducts research and analysis on a range of public policy issues affecting low income families and individuals and that has an emphasis on issues relating to hunger and poverty. The Center's work is funded primarily by foundations.

Prior to starting the Center, I served in USDA as Administrator of the Food and Nutrition Service in 1979 and 1980 and as Special Assistant to Secretary Bergland for food and nutrition issues in 1977 and 1978.

Recent Trends in Poverty

Hunger and poverty remain at unusually high levels in our country. In 1988, the sixth year of an economic recovery, the poverty rate was higher than in any year of the 1970s -- including the worst recession years of that decade. Although the national unemployment rate in 1988 was at about the same level as in 1979, the poverty rate was considerably higher in 1988 -- and nearly six million more Americans were poor.

Moreover, as Census data show, those who are poor have grown poorer in recent years. The amount by which the income of the average poor family falls below the poverty line was greater in 1988 than in any other year in the 1970s or 1980s, after adjustment for inflation. The proportion of the poor who fall into the group that might be termed the "poorest of the poor" -- those with incomes below *half* the poverty line (or less than $4,718 for a family of three in 1988) -- was at its highest level in at least 15 years.

Particularly disturbing is the rise in poverty rates among children. One of every five children now lives in poverty; among minority children, poverty rates are at least twice this high.

In addition, the numbers of both white children and black children who fall into the ranks of the "poorest of the poor" -- i.e., who fall below *half* of the poverty line -- have jumped more than 50 percent since the late 1970s.

It should also be noted that despite the frequent media focus on the inner city, poverty has grown as fast in rural as in urban areas -- and is substantially higher in rural than in urban areas. In 1988, nearly one of every six Americans living in nonmetropolitan areas was poor, according to the Census data. About one in eight residents of metropolitan areas was poor.

Poverty rates are nearly as high in the nation's rural areas as they are in the central cities. Some 16 percent of all residents of nonmetropolitan areas in the U.S. were poor in 1988. Some 18.3 percent of all residents of the nation's central cities were poor. Among whites, poverty rates are as high in nonmetropolitan areas as in the central cities. Among blacks and Hispanics, poverty rates are *higher* in nonmetropolitan areas than in the central cities.

Not surprisingly, this increase in poverty appears to have been accompanied by an increase in hunger. Surveys of soup kitchens and emergency food pantries have shown substantial increases in need, as have the surveys of city agencies conducted by the U.S. Conference of Mayors.

The Role of Rising Housing Cost Burdens

It may seem surprising, at first blush, that these surveys have continued to provide indications of increasing levels of hunger in recent years, despite economic recovery and some reduction in poverty rates since the recessions of the early 1980s. But, here, another critical factor has come into play -- the impact of soaring housing costs borne by the poor.

New data released last year by the Census Bureau and HUD show that in 1985, *some 45 percent of all poor renters in the U.S. were spending at least 70 percent of their income for housing costs*, including rent and utilities. (1985 is the latest year for which these data are currently available.) Two-thirds of all poor renters were spending at least half of their income for housing. And 85 percent of the poor renters were paying more than 30 percent of income for housing -- or more than the maximum amount considered affordable for these households under federal standards established during the Reagan Administration. (The data show that poor homeowners bear high housing cost burdens as well, with about one-third paying at least 70 percent of income for housing and three-fourths paying at least 30 percent of income.)

The housing cost burdens of the poor have climbed sharply in recent years; the number of poor households has mushroomed at the same time that the number of low rent housing units has substantially declined. The result, documented in the Census data, is an acute shortage of low rent housing. Furthermore, since the demand for low rent housing now far exceeds the supply, increases in rental costs have generally been more rapid in low income communities than in non-poor areas.

These high housing cost burdens affect poor households in urban and rural areas alike -- and in all regions of the country. For example, the Census data show that 79 percent of all poor renter households in nonmetropolitan areas of the U.S. paid at least 30 percent of their incomes for housing costs in 1985, or more than the maximum amount considered affordable under the HUD standards. More than half of the poor renters in nonmetro areas -- and over one third of the poor nonmetro homeowners -- paid at least 50 percent of their incomes in housing.

Similarly, poor households in all regions are affected. In every Census region -- Northeast, Midwest, South, and West -- at least 70 percent of all poor households paid more than 30 percent of income for housing in 1985, at least 45 percent of the poor households paid at least half of their income for housing, and at least 32 percent of poor households paid at least 70 percent of income for housing.

Because poverty remains higher in the South than in other regions, a disproportionate number of the poor households facing high housing cost burdens live in the South. The Census data show that there are more poor households with high housing cost burdens (i.e., with high housing costs when measured as a percentage of income) in the South than in any other region. One-third of all the poor households paying at least 70 percent of income for housing live in the South.

Meanwhile, federal low income housing assistance reaches only a modest fraction of these households. In 1988, only 29 percent of all poor renter households in the country received federal, state, or local housing assistance. Unlike Medicaid, food stamps, SSI, or AFDC, low income housing assistance is provided on a discretionary rather than on an entitlement basis. In many areas, poor households languish on waiting lists for years before they can receive housing assistance.

Partly as a result of these developments, a growing number of poor households find it difficult, if not impossible, to pay the rent and utility bills and still have enough resources left over -- including their food stamps -- to buy sufficient food to last through the month. Since rent and utility bills are fixed, purchases for food constitute one of the first items that gets squeezed.

If rent or utility bills are missed instead, this can lead to shut-offs and evictions -- and in some cases to homelessness. The new housing cost data from the Census Bureau thus indicate that large numbers of poor households are averting homelessness only by paying extremely high proportions of their limited incomes for housing, which in turn makes it difficult for them to buy enough food to get an adequate diet at the same time.

Looking Toward the New Farm Bill: What To Do?

In 1988, this Committee took some steps to address the growth of hunger in the U.S. by passing the Hunger Prevention Act. The Committee should be commended for this action.

Important as that legislation was, however, it should not have been expected to result in a substantial diminution of these problems. The main purpose of the Hunger Prevention Act was to prevent matters from getting worse as a result of the disappearance of most of the surplus commodities that had been distributed to poor households in prior years through the Temporary Emergency Food Assistance Program (TEFAP). The principal provision of the Act was a modest upward adjustment in food stamp benefits of $2 to $3 per person per month to help cushion the effect of the drying up of most of the TEFAP program, as USDA's once-large surplus stocks dwindled.

Moreover, even with the provisions of the Hunger Relief Act, food stamp assistance in FY 1989 was lower, in inflation-adjusted terms, than in FY 1981. Food stamp participation has also declined. In 1988, there were 2.6 million more people living below the poverty line than in 1980, but there were 1.1 million fewer people receiving food stamps in an average month. A study issued in 1988 by USDA provides further evidence of a decline in food stamp participation rates. It indicates that of all poor people who are eligible for food stamps, the percentage actually receiving food stamps dropped between 1980 and 1987.

To help address the hunger problems our nation continues to face, further action is warranted. I believe this action should place particular emphasis on alleviating hunger among poor children. Poverty rates are now higher among children than among any other age group. Meanwhile, studies by the Congressional Budget Office have found that from 1979 to 1987, the average income of the wealthiest fifth of families with children rose 11 percent (or more than $7,000 a year, after adjusting for inflation), while the average income of the poorest fifth of U.S. families with children plunged 21 percent, after adjustment for inflation. No group in our society fared worse in the 1970s and 1980s than poor children.

Food Stamp Reforms

In this vein, I would like to suggest consideration of several changes in the food stamp program. My remarks will concentrate on the food stamp program for several reasons.

First, the food stamp program is the nation's leading instrument for addressing hunger among poor children. USDA figures show that 83 percent of all food stamp benefits -- or six food stamp dollars of every seven -- go to families with children.

Second, the food stamp program serves one of the poorest populations of any federal program. USDA data show that 94 percent of all food stamp households have gross incomes below the poverty line. Nearly two in every five such households have incomes below *half* the poverty line.

Third, the food stamp program is quite important in rural and urban areas both. A Census Bureau study issued last year found that during the 32 month period covered by the study, nearly one of every six residents of the nation's nonmetropolitan areas received food stamps for at least one month. The report also found that fewer than one in 25 nonmetro residents received food stamps in *every* month in this 32-month period. These findings indicate that substantial numbers of low income rural households rely on food stamps to help them through periods of temporary hardship, and do so without becoming dependent upon the food stamp program.

As you know, the food stamp program comes up for reauthorization this year. This provides an opportunity to improve the program and help impoverished children and their families. Accordingly, I would recommend consideration of the following food stamp reforms.

1. *Helping poor families and children avoid having to choose between paying the rent and getting enough to eat.*

I would urge that consideration be given to modifying the manner in which the food stamp program treats housing costs when food stamp benefit levels are determined. In theory, the food stamp benefit structure is supposed to ensure that poor households have enough resources -- including food stamps -- to purchase a low cost but nutritionally adequate diet after they meet the cost of other necessities, such as paying the rent. This goal is supposed to be achieved by providing a deduction from household income (when food stamp benefit levels are computed) for "excess shelter costs." Excess shelter costs are defined as housing costs that exceed 50 percent of a household's net income.

The problem is that for households that are not elderly or disabled, the shelter deduction is limited to $177 a month -- even if a household's excess shelter costs are greater than this. While elderly and disabled households are allowed to deduct the full amount of their excess shelter costs, other households -- principally families with children -- are not. This means that the very families that face the most severe housing cost burdens -- families that do *not* receive any HUD housing aid and that pay extremely high proportions of their income for housing -- are the families not permitted to deduct their excess shelter costs in full. Under the current food stamp benefit structure, families with very high shelter costs are *assumed to have money available for food that must actually be used to pay the rent*; as a result, their food stamp benefits are set at unrealistically low levels. In short, the current food stamp benefit structure effectively compels some of these families to choose between paying the rent and utility bills and feeding their families adequately throughout the month.

It is inequitable that families with children should be denied the right to deduct their excess shelter costs in full when such a right is accorded to the elderly and disabled. The Census housing data show that the housing cost burdens of poor families with children are generally more severe than those of the elderly poor, because many of the elderly poor own their homes and have long since paid off their mortgages.

The current structure of the food stamp shelter deduction dates from the Food Stamp Act of 1977. At the time that Act was passed, it appeared that a ceiling could be placed on the shelter deduction without causing widespread hardship. (There was no ceiling on the deduction prior to the 1977 Act.) But what no one could know in 1977 was that the low income housing market would change radically over the next decade. In 1978, the number of low-rent housing units *exceeded* the number of low income renter households.[1] By contrast, in 1985, there were *3.7 million fewer low rent units* than there were low income renter households, a sharp reversal of the conditions that prevailed only seven years earlier. The result has been a stunning increase in the housing cost burdens of poor households.[2]

Some may argue that while this is unfortunate, it is an issue best addressed through housing programs, not through the food stamp program. To deny that the food stamp program has an important and necessary role here seems shortsighted, however. Federal housing programs are not entitlements; as noted, only 29 percent of all poor renter households receive federal, state, or local housing aid. To make low income housing assistance an entitlement and assist more of these households would likely cost $10 billion to $20 billion a year. It is not realistic to expect the housing programs to tackle these problems fully in the foreseeable future.

As a result, I believe we must attempt to assure that those poor families bearing housing costs that consume most of their incomes should not have to choose between paying the rent bill and missing meals -- between hunger and, in some cases, homelessness. For about $400 million, this serious flaw in the food stamp benefit structure can be remedied -- so that food stamp benefits are more adequate for those burdened by severe housing costs, and so that poor families with children are treated in the same manner as elderly and disabled households. (I would note that this change would not make any household eligible for food stamps that is not eligible under current law; what it would do is assure that some poor households now on the program who bear especially high housing cost burdens receive a more adequate level of food stamp support.)

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[1] Low income households are defined here as households with incomes below $10,000, as measured in 1985 dollars. Low rent units are defined as those renting for no more than $250 a month in 1985 dollars. The $250 monthly rental level equals 30 percent of the income of a household making $10,000 a year.

[2] It should also be noted that the principal reason a cap was placed on the shelter deduction by the 1977 Act was that Congress wanted to ensure that middle-income families could not qualify for food stamps by subtracting so much in deductions from their gross income that their income (after deductions) fell below the food stamp program's net income eligibility limits. In 1977, the only income eligibility limit in the food stamp program was the net income limit -- no gross income limit existed.

This is no longer the case, however. In 1981, a gross income limit was established, equal to 130 percent of the poverty line (except for elderly and disabled households). As a result, a cap on the shelter deduction is no longer needed to prevent non-low income families from qualifying for food stamps. The gross income limit already accomplishes that task.

2. *Basic Benefit Levels*

Another area warranting examination is the basic benefit level provided in the food stamp program. Program benefits for any fiscal year are based on the cost of USDA's thrifty food plan in June of the previous fiscal year. Benefits for households with no net income will, starting in FY 1991, be set at 103 percent of the cost of the thrifty food plan in the preceding June.

Use of the thrifty food plan as a basis for setting food stamp benefits has long been a source of controversy. USDA food consumption surveys show that fewer than one in every six households whose food expenditures are equal to the cost of the thrifty food plan manage to obtain the Recommended Daily Allowances for the basic nutrients. Other surveys show that many food stamp households run out of food before the end of the month.

It is not my purpose to discuss here whether the thrifty food plan is the appropriate standard to use in setting food stamp benefit levels. Basing food stamp benefits on USDA's next lowest cost food plan would cost about $4 billion a year and is not feasible.

But if we are going to base food stamp benefits on the cost of the thrifty food plan, we should be sure that the benefits do at least equal the thrifty food plan's actual cost. This we do not currently do. Because benefits are based on the cost of the thrifty plan in June of the *prior* fiscal year, the benefits usually fall *below* the current cost of the thrifty plan.

In 1988, Congress partially responded to this problem by raising food stamp benefits to 103 percent of the cost of the thrifty plan in the previous June. This helped to address this matter, but did not quite fully do the job. An historical analysis shows that, on average, the cost of the thrifty food plan in a given month exceeds the plan's cost in June of the previous fiscal year by more than three percent. This is particularly true in the last half of the fiscal year. Over the 13 years since the thrifty plan was created, the average cost of the plan in the last half of the fiscal year has exceeded the cost in June of the previous year by more than five percent. I believe the food stamp benefit standard should be adjusted so that food stamp benefits can provide food stamp households with a better opportunity to purchase the foods in the thrifty plan.

3. *Improving incentives for child support*

Several actions can also be taken to enable the food stamp program to better reward efforts to achieve self-sufficiency among families with children. One such action concerns the interaction between food stamp benefits and child support collections.

One cause of poverty among children is the low level of child support provided by many absent fathers. In 1985, only 61 percent of the mothers of children whose fathers were absent were covered by child support awards. Of those who had such awards and were supposed to receive child support payments, more than half either received no payments or received less than the amount owed.

These statistics apply to all children, regardless of income level. For poor children, the picture is considerably more grim. For example, in 1987, child support payments were received for only 14 percent -- or just one in seven -- of the families with children on AFDC.

The welfare reform legislation passed in 1988 placed considerable emphasis on strengthening child support collections, especially for children on AFDC. Increased collections hold the promise not only of alleviating child poverty, but also of reducing need for and dependence on AFDC (and consequently of reducing government costs).

Unfortunately, however, a major inconsistency between the AFDC program and the food stamp program now hinders efforts to boost child support collections for children on AFDC. This inconsistency needs to be remedied.

In tracking down the absent fathers of AFDC children so that child support payments can begin to be extracted from the fathers, the efforts of the mothers are crucial. Yet helping the authorities to locate and track down the absent father can be emotionally wrenching for a mother, and at times may carry an element of danger for her.

Not too long ago, the welfare system effectively discouraged the mother from vigorously cooperating in these efforts. For each dollar collected from the absent father in child support payments, the mother's AFDC grant was reduced one full dollar. As a result, the mother and her children gained nothing from these efforts -- and the absent father could view these payments as going to the government rather than to his children.

Five years ago, as policymakers began to give far greater attention to the need to increase child support collections, Congress altered this aspect of the welfare system. The

House Ways and Means and Senate Finance Committees concluded that a mother on AFDC should be allowed to keep $50 a month in child support collections as an incentive for her to help track down the absent father. Otherwise, an AFDC mother who helped track down the father (and thereby saved money for the taxpayer) would be no better off than an AFDC mother who did not help.

What the Ways and Means and Finance Committees did not consider, however, is that the food stamp benefit structure partially undermines the incentive provision they wrote into the AFDC statute. Under the food stamp program, the $50 in child support which the mother is allowed to keep is counted against her food stamps -- and her food stamp benefits are reduced as a result. As a consequence, the overall net gain to the mother for helping to track down the absent father is reduced to between $27.50 and $35 a month.

The wise policy would be to make the food stamp program consistent with AFDC and to disregard the $50 for both AFDC and food stamps for households participating in both programs. This would significantly boost the incentive for welfare mothers to help track down absent fathers and should lead to more child support collections.

In 1987, Rep. Leon Panetta placed such a provision in food stamp welfare reform legislation that was approved by the House. Initially, in the welfare reform conference in 1988, House and Senate negotiators from the House Ways and Means and Senate Finance Committees agreed the provision had strong merit and should be included in the final welfare reform bill. However, at the end of their deliberations, these committees found themselves to be over their spending limit. Several provisions, including this food stamp provision, were dropped as a result; the food stamp provision was one of the last provisions to be dropped in the welfare reform conference. It would be prudent to reconsider it this year.

4. *Asset Limitations*

Another area meriting examination is the limit placed on the value of automobiles that food stamp households may own. The current limit was written into the Food Stamp Act back in 1977 and has not been changed since. Yet since 1977, the Consumer Price Index for used cars has risen 120 percent.

In 1984, President Reagan's Task Force on Food Assistance took note of the fact that the limit had not been modified since 1977 and recommended an upward adjustment. The Task Force said that the lack of an adjustment in the limit since 1977 was resulting in denial of benefits to some legitimately needy households, such as unemployed households who had purchased a modest car while they were working.

In 1985, the House approved an adjustment in the vehicle limit, but it was dropped in conference with the Senate. In 1988, an adjustment was passed by the Senate but dropped in conference with the House. By the time of the 1990 food stamp reauthorization, another six years will have passed since the President's Task Force issued its report. The limit is now even more stringent than it was then.

It should be noted that the food stamp automobile limit is a "market value" limit rather than an "equity" limit. This means that a household can be disqualified for food stamps even if it has little equity in its car and would get little for selling it.

Finally, the food stamp rules in this area conflict with the goals of fostering self-sufficiency. Consider the case of a family in which the breadwinner has been laid off and the family is thrust into poverty. The family may be unable to afford an adequate diet without the aid of food stamps, but may fail to qualify because the market value of its car puts it modestly over the assets limit. Forcing the family to sell its car will make food stamps available -- but may make it more difficult for the family's breadwinner to search for and find a job. This is particularly true in many rural areas, where a car may be essential to finding and retaining employment. In fact, adjusting the vehicle limit upward in accordance with the recommendations of President Reagan's Task Force would probably be of disproportionate benefit to the nonmetropolitan areas of the United States.

5. *The Food Stamp Household Unit*

One aspect of the food stamp benefit structure that adds substantial program complexity and also causes some hardship involves the rules for determining when people living together constitute a single food stamp "household." Prior to 1981, individuals living together who purchased food and prepared meals in common were considered one food stamp household. However, these rules were changed in 1981, changed again in 1982, and changed further in 1987. Each change made the rules more complicated, and they are now quite intricate.

The concern that led to the changes in 1981 was a fear that some people who really ought to be combined into one household -- such as a husband and wife or a parent and teen-age child -- could purchase food and prepare meals separately and apply as separate households. In this manner, a spouse or a child in a non-low income household might be able to maneuver the rules to qualify for food stamps.

The current statutory provisions, however, go beyond what is needed to close off that potential loophole. The current rules not only require that spouses and their children must be considered a food stamp household regardless of whether they purchase food and prepare meals in common, but also require that in certain cases, adult siblings and their families who are "doubling up" must also be combined into a single household unit -- even if they are economically distinct.

This provision makes the program harder to administer and more error-prone. It also makes some legitimately poor families ineligible for food stamps (or eligible for smaller benefits) because they are doubling up with the family of a sibling that is not as low income as they are. It is appropriate to combine such families into a single food stamp household *if* they are sharing food costs, but not if the families are really economically distinct and are not sharing food expenditures. Accordingly, consideration should be given to retaining the requirement of current law that spouses and their minor children be considered a single food stamp household regardless of whether they purchase and prepare food in common, but removing the provision extending this inflexible and automatic requirement to adult siblings and their families as well.

6. *Improving Services to the Homeless*

I would also urge that efforts be made to make the food stamp program more accessible to the homeless. Only last week I learned that a study conducted for USDA by the Urban Institute found that only 18 percent of the homeless individuals eligible for food stamps actually receive them. It appears that some food stamp procedures which may be appropriate for other households simply do not fit the situation of homeless individuals and pose significant barriers to participation by them. I would urge the Committee to look into this matter over the next few months and to try to identify steps that can alleviate this problem, so that the food stamp program can more adequately serve this extremely needy population.

7. *The Food Stamp Minimum Benefit*

I would also like to call the Committee's attention to the low benefit levels provided to many elderly households. When the Food Stamp Act of 1977 was enacted, the food stamp benefit structure was altered in a way that would have reduced benefits close to zero for substantial numbers of the elderly, including many elderly women living alone. To help address this problem, the 1977 Act included a provision establishing a minimum benefit of $10 for all one and two-person households that met the program's eligibility tests -- but that would otherwise qualify for a benefit of less than $10 under the new benefit structure.

Some 12 years later, the minimum benefit remains at $10. This now purchases much less food than in 1977. While the minimum benefit has remained unchanged during this period, food prices (as measured by the cost of the thrifty food plan) have risen 89 percent.

Meanwhile, food stamp participation rates are substantially lower among the elderly than among any other group. A recent USDA study found that only 35 percent of the eligible elderly individuals receive food stamps, a lower participation rate than for any other category of individuals. Studies have consistently found that one reason elderly participation is low is that many elderly find the benefits too small to be worth the hassle of negotiating the food stamp application process.

If nothing is done in 1990 to address this situation, the purchasing power of the $10 minimum benefit will erode further in the years ahead, making participation even less desirable for many low income elderly people. USDA data show that nearly 30 percent of all households with an elderly member receive the minimum benefit -- and that 67 percent of those getting the minimum benefit are elderly. Another 18 percent are disabled.

I would suggest that the $10 minimum benefit be indexed in the future, rising at the same rate as food costs increase. This would at least prevent any further erosion in the food purchasing power of the minimum benefit.

8. *Food Stamp Waivers*

A final food stamp issue I would like to raise concerns the Administration's proposal that it be granted broader authority to waive provisions of the Food Stamp Act when conducting demonstration projects. The Food Stamp Act currently contains rather extensive waiver authority, but the Administration would like this authority expanded.

Demonstration projects can enhance our ability to make the food stamp program more effective, and are a basic part of program administration. But great care should be exercised in modifying the demonstration authority already in the Food Stamp Act.

It is my understanding that the Administration's request to broaden the food stamp demonstration authority originated with the Low Income Opportunity Board, an executive branch coordinating body established by the Reagan Administration. The Board has long been interested in expanding the food stamp waiver authority. A paper it issued in late 1987 calling for broader waiver authority is quite revealing on this matter. The paper states:

> "The [waiver] authority under section 17 (b)(1) [of the Food Stamp Act] is very broad in that waiver of any section of the Food Stamp Act is contemplated. However, the discretion is constrained in two ways. First, the Secretary may not approve demonstrations which lower or further restrict the income or resource standards or benefit levels established by the Food Stamp Act. Second, while no specific limit on the number or duration of demonstration projects is imposed, the projects must be operated on a trial basis, not as a permanent change."

In other words, the Low Income Opportunity Board's only complaints were that it could not use the waiver authority to reduce benefits or to override Congress and make permanent program changes Congress had not approved.

While demonstration projects should be encouraged and supported, I would urge the Committee not to cede authority for *permanent* program changes or to grant authority for back-door budget cuts that reduce benefits through use of the waiver process. The purpose of the waiver process should be to conduct carefully designed demonstration projects to test possible program changes, not to make permanent changes or cut benefits by executive fiat.

Indeed, the waiver authority the Low Income Opportunity Board appeared to be seeking in its 1987 paper is so broad that it could have a similar effect to the proposal to convert the food stamp program into a block grant, at state option, that the Reagan Administration sought but this Committee rejected on a bipartisan basis in 1985.

This is why I urge that changes in this area be made only if necessary and with great care. It is my hope that the Department will carefully examine areas where it believes additional waiver authority is needed and send up language that is narrowly drafted to accomplish this task, rather than sending up the more sweeping and somewhat alarming language that is implied in the Low Income Opportunity Board paper of 1987.

Other Food Assistance Programs

I would also like to recommend extension both of the program under which USDA provides food to soup kitchens and of the Temporary Emergency Food Assistance Program (TEFAP). I would note that the Administration has expressed support for both programs. In addition, I would urge that the $120 million in mandatory food purchases currently provided under TEFAP be continued, a step the Administration has also recommended.

I would note, however, that if there are limited resources for expanding food assistance programs, the Congress should be cautious about committing resources to increase the mandatory food purchases for the TEFAP program. The clientele served by TEFAP is less needy than that served by food stamps.

USDA studies show 58 percent of all food stamp benefits are provided to households with gross incomes below half of the poverty line. By contrast, the USDA studies indicate that 31 percent of TEFAP benefits go to households with incomes this low.

Similarly, while 98 percent of food stamp benefits go to families below 100 percent of the poverty line, 75 percent of TEFAP benefits do.

These differences between the income levels of food stamp and TEFAP recipients is tied to a second difference in these programs. Food stamp recipients are more likely to be children than TEFAP recipients are; TEFAP recipients are more likely to be elderly than food stamp recipients are. In general, low income elderly households are not as poor as low income families with children.

In fact, of those elderly households who are on TEFAP, some 40 percent have incomes above the poverty line.

Percentage of Benefits Going to Households at Various Income Levels

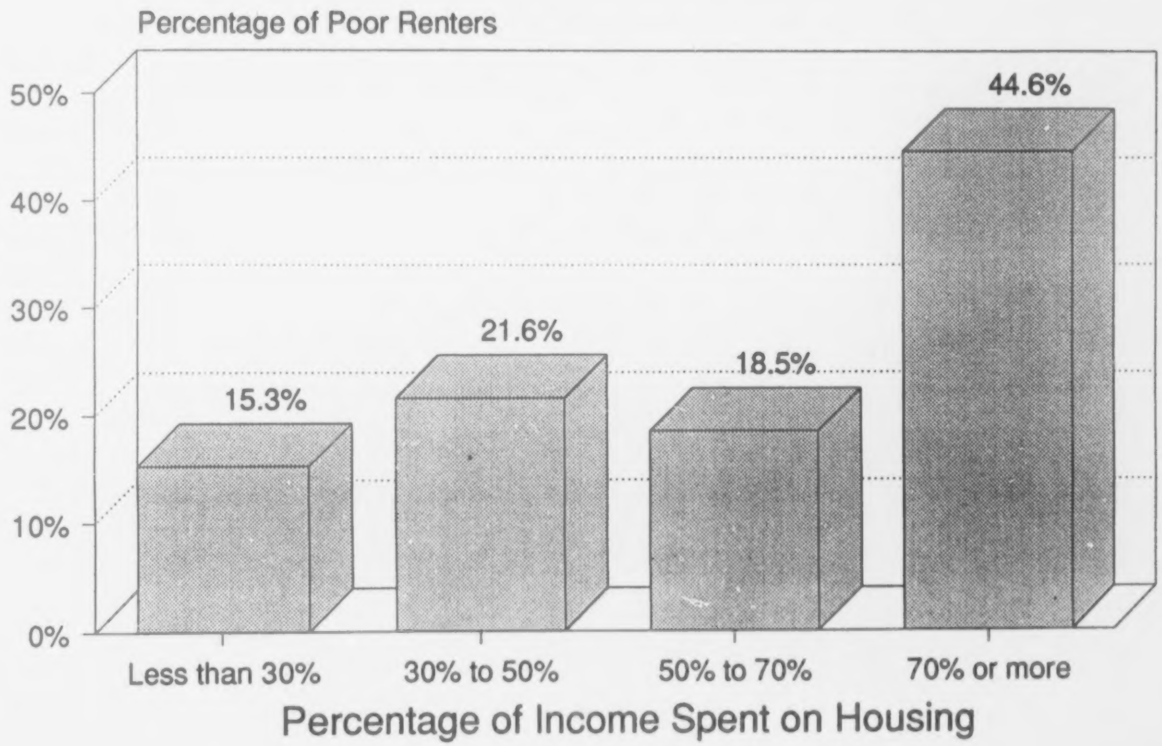
Household Income as a Proportion of the Poverty Line	Food Stamps	TEFAP
< 50%	58%	31%
< 100%	98%	75%
> 130%	0%	9%

In short, if there are funds to expand these programs above current levels, I would recommend that these funds be concentrated in food stamps rather than TEFAP, particularly if the Committee wishes to place an emphasis on poor children.

I recognize that the recommendations I am making here this morning would entail the commitment of additional resources. I hope these resources can be found. Several years ago, I read a speech which had been delivered by the senior senator from New Mexico, Senator Domenici. In this speech, he spoke of "national needs that are for me, as just one Senator, compelling and deserve new resources" and of a nation not adequately meeting "its social and moral responsibility in new problem areas." "Most pressing," he said, "is the seamless web of poverty, homelessness, hunger, and mental illness." He urged that we make tough choices in other budget areas to find the resources required to address these compelling needs.

I hope that the Congress will make these tough choices -- and will find the resources to assist poor children who are experiencing hunger and poverty today but whom our nation will need to depend upon tomorrow.

Percent of Income Spent on Housing By Poor Renters, 1985



The **Chairman**. Mr. Grace.

STATEMENT OF TIM GRACE, STATE DIRECTOR, FOOD STAMP PROGRAM, ILLINOIS DEPARTMENT OF PUBLIC AID, SPRINGFIELD, IL; ON BEHALF OF THE AMERICAN PUBLIC WELFARE ASSOCIATION, WASHINGTON, DC

INTRODUCTION

Mr. **Grace**. Mr. Chairman, thank you, and members of the committee. It is a pleasure to have the opportunity to appear before you today. I also, like Mr. Greenstein, was extremely pleased to hear the proposed legislation of today because it is like ours—very, very similar to the recommendations I plan to present here today.

While my name is Tim Grace and I am State Food Stamp Director of the Illinois Department of Public Aid, I am here as a representative of the American Public Welfare Association (APWA), and specifically a representative of the APWA's Food Stamp Reauthorization Task Force.

As you are aware, APWA has been a leader in the movement to reform and strengthen the Nation's economic security and human service programs for low-income families and individuals for many years.

The reauthorization of the Food Stamp Program this year presents an excellent opportunity to achieve equally important improvements in this vital component of our support of low-income families.

The Food Stamp Reauthorization Task Force is the working group established by APWA to develop and present these proposals. The Task Force was convened last year by APWA's National Council of State Human Service Administrators and is staffed by the State Food Stamp Program directors throughout the country.

TASK FORCE REPORT

Mr. Chairman, I am pleased to provide you and the members of the committee copies of our Task Force report, "Improving the Food Stamp Program: Recommendations for Congressional Action in 1990,"[4] which has already been distributed, I believe. I am going to briefly highlight several of the major priorities contained in our report. Once again, they are very, very similar to the things that you have already heard today, and I will just skim them for that particular reason.

Improvement of Program Benefits and Access

HOUSEHOLD DEFINITION

Household definition, which is one of the major issues Mr. Greenstein alluded to—there is broad agreement that the present definition of a food stamp household has grown far too complex in recent years, and also fails to reflect how many low-income families must now live. Many families and individuals who would otherwise live separately have been forced to share shelter with family members or friends due to the current low-income housing crisis. While sharing housing, they still maintain their separate household identity and don't combine their incomes. Therefore, the household definition should be revised to reflect this reality.

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[4] The report is retained in the committee file.

I would like to think in terms of this suggested change being based more toward reality than to relationship, which has been the essence of the current household definition under which we operate.

DEDUCTIONS AND EXCLUSIONS FROM INCOME

The second issue, deductions and exclusions from income—the Food Stamp Program allows a number of deductions and exclusions from gross income to reflect the necessary expenses of maintaining a household or holding a job. These amounts are generally fixed by law and there is no automatic adjustment for inflation. The effect has been a gradual erosion of the purchasing power of low-income families.

SHELTER COSTS

We are especially concerned with one specific deduction. It is not keeping pace with increasing costs; that is, the shelter cost deduction. In recent years, shelter costs have taken up an increasing portion of low-income household budgets. Currently, most food stamp households can deduct only those household costs that do not exceed 50 percent of their net income by more than $177 a month. Many food stamp households already have difficulty meeting monthly housing costs, and far too many of them live in danger of losing their home. We therefore strongly recommend removing the limit on shelter deductions to address these problems.

CHILD SUPPORT DISREGARD

In addition, we are also concerned with the child support disregard. Child support enforcement programs return up to $50 monthly of title IV–D collections to AFDC recipients. The payments are disregarded in AFDC, but they are counted as income for food stamps. This discrepancy has been an administrative burden on States for years and contributes to many payment errors. Further, it provides a disincentive for food stamp recipients to participate fully in the child support recovery process. The Task Force strongly recommends changing food stamp policy to conform with that of AFDC and provide program consistency, as well as removing the penalty imposed on food stamp clients for these payments.

BENEFIT LEVELS

Number three, benefit levels, briefly: Food stamp benefits are based on the cost of the USDA Thrifty Food Plan in June of the prior fiscal year. As a result, benefits usually fall below the current cost of the Thrifty Food Plan. Starting in fiscal year 1991, benefits will be set at 103 percent in response to this problem. Recent data, however, show that the cost differential is actually 5 percent, not 3 percent. Congress should consider adjusting benefit costs to reflect actual Thrifty Food Plan costs.

RESOURCE LIMIT FOR VEHICLES

Certain household property and other resources are exempt from being counted toward the household's asset limit. Among the exemptions is the first $4,500 in the value of most vehicles. Any vehicle value beyond $4,500 is counted toward the asset limit and can make a household ineligible. The $4,500 figure was established in 1977. Since 1977, the Consumer Price Index for used cars has risen 120 percent. The $4,500 amount has not been changed. APWA strongly recommends that the current vehicle resource limit be abolished and replaced by an annually adjusted standard based on the actual cost of low-priced cars.

APWA RECOMMENDS OTHER IMPROVEMENTS IN BENEFITS AND ACCESS

Also, APWA recommends the following additional important improvements in program benefits and access. Student income and grants: Try to bring the consideration of loans, grants, and scholarships into some consistency with the manner in which we handle them under the AFDC program.

Restaurant meals for the homeless: We recommend that States be allowed to contract with restaurants to provide meals to the homeless at concessional prices.

Proration of benefits at recertification: We recommend that proration of benefits at certification be ended for all households, as has already been done for migrant households.

Full program participation for Puerto Rico: Congress should take action to ensure the nutritional adequacy in Puerto Rico by either returning Puerto Rico to full participation in the Food Stamp Program or increasing the block grant to provide benefits comparable to the regular Food Stamp Program.

The TEFAP program, Temporary Emergency Food Assistance: APWA supports the extension of the mandatory purchase program for TEFAP, provided that the continuation of TEFAP benefits is not contingent upon the reduction of food stamp benefits.

IMPROVED PROGRAM ADMINISTRATION

CONSISTENCY BETWEEN FOOD STAMPS AND THE AFDC PROGRAM

Under administrative considerations which, of course, the food stamp directors are also concerned with, we urge continued moves toward further consistency between the food stamp and the AFDC programs. Differences between these two programs have been a persistent source of administrative problems and payment errors for years.

Most recipients of AFDC also receive food stamps, and many States use the same eligibility worker to handle the programs. Despite this, a host of major and minor differences between the programs confuse recipients, hamper administration, and cause errors. In 1986, APWA issued a report recommending changes in 36 areas which would bring the programs closer together, but few substantive changes have actually been made.

QUALITY CONTROL

The subject of quality control (QC) was closely examined during the Hunger Prevention Act of 1988. At that time, Congress recognized the validity of the National Academy of Sciences' view that the existing QC system was seriously flawed and should be extensively overhauled.

Congress did agree to enact several helpful changes in the food stamp QC system as part of the Hunger Prevention Act. However, due to constraints on time and the funding needs of other elements of the 1988 legislation, additional QC reforms were postponed.

The most urgent of these is the backlog of outstanding sanctions against the States for FY 1981 through 1985. Payment of this backlog would severely strain the fiscal capacity of most States.

A second important item left on the reform agenda is the appealability of waiver denials. As part of the negotiated reforms enacted in 1988, States lost the right to appeal denials of good-cause waivers of food stamp error rate penalties. We believe that this issue must be redressed through a reinstatement of States' rights to appeal these rulings.

APWA notes that the reform of the AFDC QC system enacted in 1989 as part of H.R. 3299 adequately addresses both of these QC issues for AFDC, and strongly recommends the same principles be applied to food stamp QC reform. We urge that that is done.

FOOD STAMP EMPLOYMENT AND TRAINING PROGRAM

Of course, employment and training is something which all of our State administrations are moving very, very strongly for. However, we would like to see, once again, more consistency brought about between the handling of the AFDC employment and training programs and the food stamp employment and training programs. There is a multitude of differences between these programs which seriously hamper the efforts in the administration of these programs.

We also recommend delaying the implementation of food stamp employment and training performance standards at least until the results are known of the JOBS study; JOBS, of course, being the AFDC Job Opportunities and Basic Skills Training Program.

OTHER IMPROVEMENTS IN PROGRAM ADMINISTRATION

Other improvements in program administration that we would like to have looked at and modified during this particular reauthorization include:

EBT

Opening the door for States to be able to utilize the electronic benefit transfer systems that have been under study as demonstration projects over the past few years. The States should be given the statutory authority to implement such systems as part of the normal administrative procedures rather than only under demonstration authority.

FEDERAL REIMBURSEMENT ISSUES

We recommend expansion of the 75 percent Federal matching funds to include improvements and changes in automated data processing systems. We recommend that the minimum level for actionable claims should be raised from $35 to $50. That $35 figure has been with the program for many years and is now outdated.

SIMPLIFIED APPLICATIONS

The Federal law requires a simplified application form, but mandates that many data collection elements be included. These two requirements oppose one another. The design of the application form and other forms used by the State for the administration of the program should be the responsibility of the States, with USDA approval, and not guided by Federal mandate.

IN CONCLUSION

In conclusion, these represent but a few of our concerns. The other concerns which we expressed through our Reauthorization Task Force are included in the full prepared text provided to you.

Mr. Chairman, I certainly appreciate the opportunity to present this summary of some of the American Public Welfare Association's recommendations for reauthorization of the Food Stamp Program. We look forward to working with you and your colleagues to improve and strengthen this critical component of our service to the Nation's low-income families.

Having been the State Food Stamp Director in Illinois for 15 years, this program is near and dear to me and I believe very intently in it, and I am extremely pleased to see the direction that I feel that the proposed legislation that I have heard about over the past few days is going.

Thank you very much.

[The prepared statement of Mr. Grace follows:]

APWA
NATIONAL COUNCIL OF STATE HUMAN SERVICE ADMINISTRATORS

TESTIMONY OF

TIM GRACE

STATE DIRECTOR, FOOD STAMP PROGRAM

ILLINOIS DEPARTMENT OF PUBLIC AID

Representing the

AMERICAN PUBLIC WELFARE ASSOCIATION

Before the

AGRICULTURE, NUTRITION AND FORESTRY COMMITTEE

UNITED STATES SENATE

February 27, 1990

A council of the American Public Welfare Association
810 First Street, N.E., Suite 500, Washington, D.C. 20002-4205 (202) 682-0100

INTRODUCTION

Mr. Chairman, members of the Subcommittee, I am Tim Grace, state director of the Food Stamp Program for the Illinois Department of Public Aid. I am here today as a member of the American Public Welfare Association's (APWA) Food Stamp Reauthorization Task Force.

APWA is a 60-year-old non-profit, bipartisan organization representing the 50 state human service departments, local public welfare agencies and individuals. APWA has been a leader in the movement to reform and strengthen the nation's economic security and human service programs for low-income families and individuals.

In 1986 APWA published One Child in Four, which presented the state human service commissioners' recommendations for comprehensive welfare reform. These recommendations emphasized the need to change assistance programs into vehicles for self-sufficiency for as many recipients as possible. Among the elements of such strengthened programs must be a set of mutual obligations between the welfare agency and the client, opportunities and incentives for education and job training, and a realistic base of income support. Many of these principles were reflected in the Family Support Act, the significant reform of the Aid to Families with Dependent Children (AFDC) program passed by strong bipartisan majorities in 1988.

This year's reauthorization of the Food Stamp Program presents an excellent opportunity to achieve equally important improvements in this vital component of our support of low-income families. The state human service commissioners are actively participating in setting the agenda for this process, and have ready a set of reauthorization recommendations that will help move the Food Stamp Program toward the goals we seek.

The Food Stamp Reauthorization Task Force is the working group established by APWA to develop our proposals. The Task Force was convened last year by APWA's National Council of State Human Service Administrators and is staffed by the state Food Stamp Program directors. The Task Force consulted with the Congress, the U. S. Department of Agriculture, and advocacy organizations in formulating its recommendations. We are pleased that we have much in common with these groups on many of the important reforms we seek. We believe this presages a strong, broadly-supported effort this year that can make significant improvements in the Food Stamp Program.

Mr. Chairman, I am pleased to provide you and the members of the Committee copies of our Task Force report, Improving the Food Stamp Program: Recommendations for Congressional Action in 1990. I ask that the full text of this report be entered into the record.

I do want to briefly highlight today several of the major priorities contained in the report. We have identified two general areas of the Food Stamp Program that need attention during the reauthorization process. The first is **improvement of program benefits and access,** so that benefits better serve the needs of vulnerable groups such as the homeless, and access to the program is not hindered by unnecessary barriers to the application and participation process.

The second general category is **improvement of program administration,** to remove impediments to efficient state and local administration and serve recipients with greater speed and accuracy. Under these two broad headings I want to mention several specific areas.

IMPROVEMENT OF PROGRAM BENEFITS AND ACCESS

Household definition. There is broad agreement that the definition of a food stamp household--the person or persons grouped together for eligibility and budgeting purposes--has grown far too complex in recent years and also fails to reflect how many low-income families must now live. Many families and individuals who would otherwise live separately have been forced to share shelter with family members or friends due to the current low-income housing crisis. While sharing housing, they still maintain their separate household identity and do not combine their income. The household definition must be revised to reflect this reality and to simplify the job of agency workers who must administer this important policy.

The revised definition we propose would provide that a food stamp household consist of the following: (1) a single individual who lives alone or, (2) a single individual who, while living with others, customarily purchases food and prepares meals for home consumption separate and apart from others or, (3) a group of individuals who live together and customarily purchase food and prepare meals together for home consumption. Exception to this definition would be spouses, parents, and their minor children who reside together. They would be deemed a single household regardless of actual food purchasing and preparation practices.

Severely disabled individuals over 18 should also be allowed separate household status even if they would normally be a member of a larger household as long as the declared gross annual income of the other members does not exceed the poverty line by more than 100%.

We recommend that errors related to this definition be counted for purposes of quality control only in those situations in which mandatory household members (spouses, parents, children) are not included, persons have left or moved into the household without notice, or boarders or residents of institutions have been included in the household.

Deductions and exclusions from income. The Food Stamp Program allows a number of deductions and exclusions from gross income to reflect the necessary expenses of maintaining a household or holding a job. The amount of each deduction is fixed by law, however, and there is no automatic adjustment for inflation. The effect has been a gradual erosion of the purchasing power of low-income families. We are especially concerned with two types of expenses and deductions that must keep pace with increasing costs in order for families to remain or become self-sufficient:

1. Shelter costs. In recent years shelter costs have required an increasing proportion of low-income household budgets. Currently, most food stamp households can deduct only those housing costs that do not exceed 50% of their net income by more than $177 a month. Many food stamp households already

have difficulty meeting monthly housing costs, and far too many of them live in danger of losing their home. We strongly recommend removing the present limit on shelter deductions as an important and practical way to help such families remain in permanent housing, and to diminish the acceleration in homelessness.

2. Child Support disregard. Child Support Enforcement programs return up to $50 monthly of Title IV-D collections to AFDC recipients as an incentive for them to support the collection process. The payments are disregarded in AFDC but counted as income for food stamps. This discrepancy has been an administrative burden on states for years, and contributes to many payment errors. Further, it provides a disincentive for food stamp recipients to participate fully in the child support recovery process. The Task Force strongly recommends changing food stamp policy to conform with that of AFDC, providing program consistency as well as removing the penalty imposed on food stamp clients for these payments.

We also recommend two other important changes in deductions and exclusions: (1) Utility allowance payments from the Department of Housing and Urban Development to families in subsidized housing should be excluded from income as are other energy assistance payments; and (2) states should have the option to establish a standard medical deduction, available to all elderly and disabled households with actual monthly medical expenses of $35 or more, that would replace the use of separate medical expense items.

Benefit levels. Food stamp benefits are based on the cost of the USDA thrifty food plan in June of the prior fiscal year. As a result benefits usually fall below the current cost of the thrifty food plan. Starting in FY 1991, benefits will be set at 103% of the thrifty plan as a response to this problem. Recent data, however, show that the cost differential is actually five percent, not three percent. Congress should consider adjusting benefit costs to reflect actual thrifty food plan costs.

There is also a question as to whether the thrifty food plan, even if funded at full cost, is itself sufficient to provide a nutritionally adequate diet. The Task Force shares this concern and strongly recommends that Congress require an evaluation of the adequacy of the current plan, taking into account such variables as the price of food actually available in or near low-income neighborhoods.

Resource limit for vehicles. Certain household property and other resources are exempt from being counted toward the household's asset limit of $2,000 ($3,000 if an elderly or disabled member is present). Among the exemptions is the first $4,500 in the value of most vehicles. Vehicle value beyond $4,500 is counted toward the asset limit. The $4,500 figure was established in 1977 and theoretically then allowed a car adequate for getting to work and other necessary functions. Since 1977 the Consumer Price Index for used cars has risen 120%, which means the $4,500 amount is now well below the price of many cars, including cars owned by households who must use the program temporarily due to layoffs or other short-term emergencies.

APWA strongly recommends that the vehicle limit be raised to a more realistic level. We suggest that the current vehicle resource limit be abolished and replace by an annually adjusted standard based on the actual cost of low-priced cars.

Other improvements in benefits and access. APWA recommends the following additional important improvements in program benefits and access:

> Student income and grants. The definition of an eligible student should be expanded to include those who receive financial assistance awarded on the basis of financial need. All student loans, grants, and scholarships should be excluded from income. The earned income of high school students should be excluded as long as they remain in high school on a full-time basis.
>
> Barriers to participation. The Task Force recommends a USDA-directed national outreach effort that would present food stamps in a positive light and help convince the

elderly of the program's value to them. We further recommend that the the outreach campaign be made in cooperation with the Administration on Aging.

Restaurant meals for the homeless. We recommend that states be allowed to contract with restaurants to provide meals to the homeless at concessional prices.

Proration of benefits at recertification. We recommend that proration of benefits at recertification be ended for all households, as has already been done for migrant households.

Full program participation for Puerto Rico. Congress should take action to ensure the nutritional adequacy of the Nutrition Assistance Program (NAP) in Puerto Rico by either returning Puerto Rico to full participation in the Food Stamp Program or increasing the NAP Block Grant to provide benefits comparable to the regular Food Stamp Program.

Exclusions for Social Security Pass Plans. APWA recommends that the Food Stamp Program exclude income and resources necessary for Social Security-approved Pass Plans.

Temporary Emergency Food Assistance Program (TEFAP). APWA strongly supports the extension of the mandatory purchase program for TEFAP. The continuation of TEFAP benefits should not be contingent upon the reduction of food stamp benefits. Nutrition programs should not be pitted against each other. Both TEFAP and food stamps help meet important nutritional needs and neither should be hurt at the expense of the other.

IMPROVED PROGRAM ADMINISTRATION

Consistency between food stamps and the AFDC program.

Differences between food stamps and AFDC have been a persistent source of administrative problems and payment errors. Most recipients of AFDC also receive food stamps, and many states use the same eligibility worker to handle both programs. A growing number of states are interested in demonstration projects where some or all elements of the two programs are combined. The purposes and intended recipients of the two programs frequently converge. Despite these common points, a host of major and minor differences between the programs confuse recipients and hamper administration.

Bringing AFDC and food stamps closer together has long been an APWA priority. In 1986 APWA issued a report recommending changes in 36 areas of food stamp and AFDC policy that would improve joint administration of the programs. Since then Congress has shown concern for consistency issues, and HHS and USDA have studied APWA's recommendations, but few substantive changes have actually been made. The major changes made to AFDC by the Family Support Act of 1988, particularly in employment and training policy, have intensified the need to address program differences.

The Task Force has been guided by these ongoing concerns in arriving at many of the specific recommendations I mention today. The problem is so broad, however, that we believe a more comprehensive approach is required. We recommend that Congress establish a commission to examine current AFDC and food stamp law, and to recommend alignment wherever feasible. Second, we recommend that Congress establish an interagency process to undertake a review of all AFDC and food stamp regulations proposed by HHS and USDA, and require conformance wherever feasible.

Quality control. The subject of quality control (QC) was closely examined during work on the Hunger Prevention Act of 1988. At that time Congress recognized the validity the National Academy of Sciences' view that the existing QC system was seriously flawed and should be extensively overhauled. Congress did agree to enact several helpful changes in the food stamp QC system as part of the Hunger Prevention Act, notably a more rational national tolerance level effective for FY 1986 and beyond, determined by the lowest national average error rate of underissuances and overissuances for any prior fiscal year plus one percent. Due to constraints of time and of the funding needs of other elements of the 1988 legislation, however, additional QC reforms were postponed until debate on the 1990 reauthorization of the Food Stamp Program.

Certainly the most urgent of these is the backlog of outstanding sanctions against states for FY 1981 through 1985, which was not affected by the 1988 reforms. Payment of this backlog would severely strain the fiscal capacity of many states. It is neither fair nor wise to fail to extend to past years the revised tolerance level now in place for current program performance. This is the same principle used in AFDC QC reform legislation enacted by the Congress last year.

A second important item left on the reform agenda is the appealability of waiver denials. As part of the negotiated reforms enacted in 1988, states lost the right to appeal denials of good-cause waivers of food stamp error rate penalties. This issue was to be revisited during reauthorization, with particular attention paid to USDA's track record in acting on waiver requests. Since the Hunger Prevention Act was enacted, USDA has acted on waiver requests for 1984 and it has developed some broad policies for handling other waivers. Unfortunately, the Department's record during this interim period suggests that it continues to take a restrictive approach on many state waiver requests. This record is not acceptable, and we believe that it must be redressed through a reinstatement of states' right to appeal these rulings.

APWA notes that the reform of the AFDC QC system enacted in 1989 as part of HR 3299 adequately addresses these issues for AFDC and strongly recommends the same principles be applied to food stamp QC reform in the areas of sanction backlog, appeal process for sanction liability, calculation of penalties using a sliding scale, and adjustment of error rates to reflect overissuance recoveries and underpayment rates if the state's performance is better than the national average.

Food stamp employment and training program. Much attention has been focused recently on the Job Opportunities and Basic Skills Training Program (JOBS), the new AFDC employment and training component required by the 1988 Family Support Act. Since 1986 a revitalized employment and training (E&T) program has also been in place for food stamp recipients. Most states are now finding it best to coordinate these two work programs since there is so much overlap in clientele. Once again, however, a multitude of differences in AFDC and food stamp policy seriously hamper these efforts.

The Task Force recommends that HHS and USDA, in consultation with the states, coordinate as much of these two work programs as possible. At a minimum there should be coordination in design of program components, funding, criteria for participation, penalties for non-participation, standards to be met, and monitoring systems. In the meantime, we also recommend delaying implementation of food stamp employment and training outcome standards at least until the results are known of the JOBS study on outcome standards. Only then will we know the validity of this approach and whether this concept accurately measures the movement of individuals into self-sustaining employment.

Implementation timeframes. A long standing concern of administrators has been the implementation schedule mandated by changes in federal law or regulations. Frequently such changes are issued with unreasonably short implementation deadlines and in some cases are even issued retroactively. We recommend that states should not be required to implement annual cost-of-living adjustments any earlier than the first of the month 60 days after enactment of the law; all other changes should be provided to states as interim final or final regulations with a mandatory effective date no earlier than the first of the month 180 days after publication of such regulations.

Other improvements in program administration. APWA recommends the following additional important administrative improvements:

> SAVE verification requirements. APWA recommends that alien status be verified only if an applicant cannot provide an INS document or provides one that is questionable. We also recommend that the head of the household be allowed to attest to the eligible alien status of all other household members.

Combined application forms for local general assistance programs. The present requirement for combined food stamp and general assistance (GA) applications should be restricted to those states that have direct control over the GA program. States should be required to provide food stamp outreach materials to GA offices in instances where a separate agency administers the GA program.

Categorical eligibility for general assistance recipients. Recipients of general assistance (GA) should be categorically eligible for food stamps when the state has direct control over the GA program. This recommendation would complement the requirement that GA applicants be allowed to complete a single application and interview where the same agency has direct control over both programs.

Electronic Benefit Transfer (EBT). States wishing to issue food stamp benefits via electronic benefit transfer (EBT) systems--such as "smart cards" encoded with monthly benefit amounts that are deducted at store checkout machines--can now do so only through special demonstration project authority. Because this technology is becoming more widespread and cost-effective, the Task Force recommends that states be given statutory authority to implement such systems as part of normal adminstrative procedures.

Combined issuance of first and second months' benefits. Persons applying after the 15th of the month now receive the first and second months' benefits together in a single allotment. This requirement is well intentioned, but recipients who get the combined allotment often do not realize that in some instances nearly two months must elapse before they can receive their third monthly allotment. This situation can lead to serious grocery budgeting difficulties and can force many such families to rely on food pantries for several weeks. We recommend that this requirement be repealed.

Computer Matching and Privacy Act. The Food Stamp Program should be deemed in compliance with the Computer Matching and Privacy Act's 30-day notification requirement and its independent manual verification requirement.

Claims recoupment proceedings. States should be allowed to begin recoupment proceedings for Intentional Program Violation or Inadvertent Household Error claims as soon as timely notice requirements have been met.

Federal reimbursement issues. APWA recommends expansion of 75% federal matching funds to include improvements and changes in automated data processing systems. We also recommend that current demonstration project authority be expanded to allow states to initiate pilot projects of their own design and, with USDA approval, receive 75% matching funds from existing state administrative funds.

Increased minimum level for actionable claims. The minimum level for actionable claims should be raised to $50.

Simplified application. Recent federal laws have required a simplified application form but at the same time have mandated that many data collection elements must be included. States cannot efficiently implement both requirements. The design of the application form and other forms should be the responsibility of the states.

CONCLUSION

Mr. Chairman, I appreciate the opportunity to present this summary of the American Public Welfare Association's recommendations for reauthorization of the Food Stamp Program. We look forward to working with you and your colleagues to improve and strengthen this critical component of our services to the nation's low-income families.

I will be pleased to answer any questions you may have.

Senator **CONRAD** [presiding]. Thank you very much, Mr. Grace.

Next, we will have a chance to hear from Ellen Haas. Welcome, and if you would proceed with your testimony.

STATEMENT OF ELLEN HAAS, EXECUTIVE DIRECTOR, PUBLIC VOICE FOR FOOD AND HEALTH POLICY, WASHINGTON, DC; ACCOMPANIED BY PATRICIA MORRIS, DIRECTOR OF RESEARCH, PUBLIC VOICE FOR FOOD AND HEALTH POLICY

Ms. **HAAS.** Thank you very much, Senator Conrad and members of the committee.

INTRODUCTION

I am Ellen Haas, executive director of Public Voice for Food and Health Policy, and I am joined today by Patricia Morris, who is our director of research.

I wanted to say for the record that Senator Leahy opened this hearing by saying very eloquently that hunger in America is not a political issue, but a moral issue. And I would like to commend the committee, and particularly the chairman, for the moral leadership that they have shown, all of you have shown, in working to alleviate hunger in America. We have an opportunity in making great strides with the reauthorization of the Food Stamp Program and the farm bill of 1990.

Public Voice will present today a summary of recent research that we have undertaken to look at the problems of rural poverty and the issues related to the poor nutrition and the debilitating health consequences of the rural poor.

We have conducted research in this area since 1984, with the support of the Ford Foundation and the Aspen Institute, and have documented the serious nutritional shortcomings in the diets of the rural poor. This year we are currently conducting a nationwide study that I think has tremendous significance to this year's debate and great importance in alleviating hunger.

FOOD STAMP BENEFIT ALLOTMENTS

We looked at USDA's established cost of the Thrifty Food Plan to see if it accurately reflected the real cost of the plan to the poor when they went shopping for food and used their food stamps.

The plan set by USDA is really the Government's formula for defining what it costs to obtain a minimally adequate diet. The cost, in turn, sets the benefit allotments for the Food Stamp Program, with the goal to ensure that all Americans have the purchasing power to obtain a nutritionally adequate diet.

Our study determined that the actual cost of the Thrifty Food Plan in 269 persistently poor rural counties in the United States was greatly in error. A team of two Public Voice surveyors traveled to 33 persistently poor counties this summer. They priced a market basket in a total of 133 food stores. It was both supermarkets and small stores.

While our final report will not be released before April, our preliminary findings show that the poor living in persistently poor rural counties cannot purchase the minimally adequately diet, the Thrifty Food Plan, with current food stamp benefit allotments.

What that means, first of all, is that the poor have limited access to the competitively priced supermarkets in the rural areas. Using census and food retailing data, we found that there is only one supermarket every 284 square miles in persistently poor rural areas, while there is one supermarket every 27 square miles in metropolitan areas.

In addition, the average number of supermarkets in persistently poor rural counties is only between two and three stores. In fact, looking at food stamp redemption patterns, we found that one out of every three food stamp dollars is redeemed in smaller food stores.

For those households having to shop for all or part of their groceries in small or medium stores, we found that their food stamp dollars fall far short of what is needed to purchase a Thrifty food basket.

In 1989, USDA set the maximum benefit allotments for a household of four at $75 a week. But our preliminary findings showed that a week's worth of groceries, based on the Thrifty Food Plan for a household of four in rural counties, was $102 in small or medium stores—a cost 36 percent higher than the maximum food stamp benefit allotment. In addition, only 2 percent of the small or medium stores in chronically poor rural areas could a Thrifty food market basket for four be purchased at the maximum benefit allotment of $75 or less, and we show this in table 1 in our prepared testimony.[5]

In addition, even for those rural food stamp recipients who could shop in the supermarket for their food stamp benefits, we found that they could not buy food in three out of four supermarkets that met the Thrifty Food Plan. In fact, the food costs were 8 percent higher than the Thrifty Food Plan, at a cost of $81. This disparity needs to be addressed, and we are very encouraged that Senators Sasser, Domenici, and Leahy have addressed this in the proposed bill.

PARTICIPATION IN THE FOOD STAMP PROGRAM

One other point that we want to just briefly mention is to look at the participation rates in rural America as it compares to the poverty rate. In rural America, the poverty rate increased from 15.0 percent in 1980 to 16.9 percent in 1987. However, during that same period, food stamp participation decreased by 2.4 percent.

Most startling are the figures in the Southeast that we have presented in our testimony where you find that there has been a 25-percent decrease in participation in States such as Alabama, Florida, Georgia, North Carolina, South Carolina, and Tennessee.

CONCLUSION

The way to address this problem is to tackle the recommendations that have been presented on this panel and we have presented as well in our testimony. To begin with, we need to raise food stamp allotments to more accurately reflect the actual cost of shopping for food in a food store, whether it be in rural America or in urban cities.

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[5] See p. 86 for Table 1—Cost of 1989 Thrifty Food Plan in Small/Medium Food Stores in Rural USA.

Also, we need to make sure that we do not have the lag that currently exists, and that we revise benefit allotments more than once a year. We have also made several recommendations for improving program participation, but because of the shortness of time I would just like to refer you to our testimony.

Thank you very much for the opportunity to be here, and, Senator Leahy, again, as I said before, for your leadership in this area.

[The prepared statement and tables 1 and 2 of Ms. Haas follow:]

PUBLIC VOICE
FOR FOOD & HEALTH POLICY

1001 Connecticut Avenue, N.W.
Suite 522
Washington, D.C. 20036

TESTIMONY OF ELLEN HAAS
EXECUTIVE DIRECTOR OF
PUBLIC VOICE FOR FOOD AND HEALTH POLICY

BEFORE THE
U.S. SENATE COMMITTEE ON AGRICULTURE

February 27, 1990

Chairman Leahy and members of the Agriculture committee, good morning. I'm Ellen Haas, Executive Director of Public Voice for Food and Health Policy, a non-profit consumer research, education and advocacy organization focusing on food, agriculture and health issues. Patricia Morris, Director of Research, is with me today to assist in answering specific questions you may have regarding our new study on food stamps.

I appreciate the opportunity to testify this morning on the Food Stamp Program in rural America and on specific and cost effective policy recommendations that Public Voice believes would improve the effectiveness of the program among the rural poor; a group profoundly hampered by poor nutrition and by the debilitating health consequences that follow.

Since 1984, through the support of the Ford Foundation and the Rural Economic Policy Program at the Aspen Institute, Public Voice has documented the serious nutritional shortcomings in the diets of the rural poor, identified some of the causes of poor nutrition, and explored policies that would help to remedy the nutritional deficiencies uncovered.

Food Stamp Benefit Allotments

Public Voice is currently conducting a nationwide study to determine if USDA's established cost of the Thrifty Food Plan accurately reflects the real cost of this plan to the poor.

The Thrifty Food Plan is the least costly of four food plans developed by the U.S. Department of Agriculture. It specifies the cost, type and quantity of food needed by males and females of different ages to meet minimum dietary standards. The cost of the Thrifty Food Plan in turn sets benefit allotments for the Food Stamp Program, a program whose goal is to ensure that all Americans have the purchasing power to obtain a nutritionally adequate diet.

Our study was designed to determine the actual cost of the Thrifty Food Plan in the persistently poor rural counties in the United States. There are 269 persistently poor rural counties throughout the United States. Persistently poor rural counties are all non-metropolitan counties in the 48 contiguous states that had poverty rates of 25 percent or more in 1980 and had poverty rates of 35 percent or more in 1970. These rural counties have the greatest concentration of long-term poor and are located in states in five of the seven USDA regions of the United States. Persistently poor rural counties are located in such states as: Alabama, Arkansas, Georgia, Kentucky, Mississippi, North Carolina, North Dakota, Oklahoma, South Dakota and Tennessee.

A team of two Public Voice surveyors traveled in June and July 1989 to 33 persistently poor rural counties throughout the United States. (A systematic random sample of the 269 persistently poor rural counties was used to select the 33 counties included in the study). The surveyors priced a Thrifty Food market basket in a total of 133 food stores certified to accept food stamps. Of these, 51 were supermarkets and 82 were small/medium food stores. (The USDA's Food Stamp Redemption Office provided us with a listing of the food stores).

Although food stamps are redeemed in 28 USDA classified store types, only those classified by USDA as "supermarkets" and "small/medium" food stores were included in our study. Over 86 percent of the coupons were redeemed nationwide in either supermarkets or small/medium food stores in September 1988, according to USDA, and in no other store type could a full-line of groceries be purchased. (A stratified random sample was used to select food stores to be included in the study).

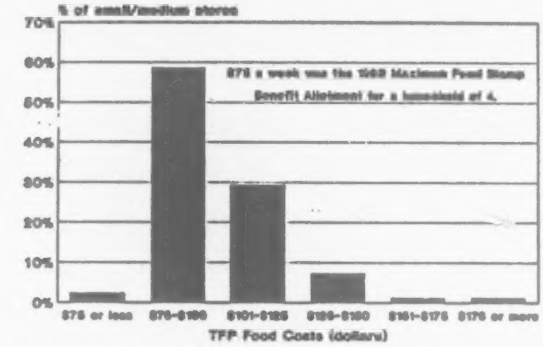
While our final report will not be released before April, I would like to make available today the preliminary findings from our study to assist you in your deliberations. Our findings show that it is extremely unlikely for households living in chronically poor rural areas to purchase groceries for what USDA sets as the maximum food stamp benefit allotment.

Many of the rural poor have limited access to the competitively-priced supermarkets. Our data shows that there is only one supermarket every 284 square miles in persistently poor rural areas while there is one supermarket every 27 square miles in metropolitan areas. In addition, the average number of supermarkets in persistently poor rural counties is only between two and three stores. Moreover, many of these supermarkets are clustered together in the county seat. The result is that many of the rural poor have to travel great distances to shop in supermarkets and probably purchase at least some of their food in the smaller stores more accessible to them.

In fact, in looking at food stamp redemption patterns in the persistently poor rural counties, one out of every three food stamp dollars is redeemed in the smaller food stores [small/medium stores (17.9%), food stores attached to gas stations (6.3%), convenience stores (4.3%), merchandising stores (2.7%) and produce stands (0.5%)], while the other two dollars are redeemed in supermarkets (68.2%).

For those households having to shop for all or part of their groceries in small/medium stores, their food stamp dollars fall far short of what is needed to purchase a Thrifty food basket. In 1989, USDA established that the maximum food stamp benefit allotment for a household of four was $75 a week. But preliminary findings from our examination show that the average cost for a week's worth of groceries based on the Thrifty Food Plan for a household of four was $102 in small/medium stores; a cost 36 percent higher than the maximum food stamp benefit allotment. In addition, in only 2 percent of the small/medium stores in chronically poor rural areas could a Thrifty food market basket for four be purchased at the maximum benefit allotment of $75 or less. Table 1 shows the different ranges of the prices charged in small/medium stores for a Thrifty Food market basket.

Table 1 - Cost of 1989 Thrifty Food Plan in Small/Medium Food Stores in Rural USA



Public Voice for Food and Health Policy

In addition, even for those rural food stamp recipients who can do all of their food shopping in supermarkets, food stamp benefit allotments are likely to fall short of what they need. We found that in three out of every four supermarkets (76%) in chronically poor rural areas a Thrifty market basket for a household of four could not be purchased at the maximum benefit allotment of $75 or less a week. In addition, our study found that

the average cost for a week's worth of groceries based on the Thrifty Food Plan for a household of four was $81 in supermarkets; a cost eight percent higher than the maximum food stamp benefit allotment.

In summary, food stamp benefit allotments are not adequate for the rural poor to purchase the foods necessary to provide them with a nutritionally adequate diet.

Participation in the Food Stamp Program

During the 1980s, hunger and poverty increased dramatically. But the Food Stamp Program, the very government nutrition program designed to fight domestic hunger, did not keep pace with the increased demand.

Findings from our research on trends in food stamp participation revealed that during the 1980s as poverty was increasing in rural America, food stamp participation was decreasing. In rural America, the poverty rate increased from 15.0 percent in 1980 to 16.9 percent in 1987. However, during that same time period, food stamp participation decreased by 2.4 percent.

The most startling findings from our study were the huge regional differences in the changes in food stamp participation between 1980 and 1987. In grouping the states into USDA's seven regional districts, the three regions east of the Mississippi (Northeast, Mid-Atlantic and Southeast) experienced significant decreases in food stamp participation during the 1980s.

In particular, states in the Southeastern region of the U.S., a region whose states have some of the highest poverty rates in the country, experienced the greatest decreases, despite the fact that the poverty rate in only one state, North Carolina, decreased between 1980 and 1987. State-wide, participation in the Food Stamp Program decreased by more than 25 percent in Alabama, Florida, Georgia, North Carolina, South Carolina and Tennessee between 1980 and 1987. In addition, in the rural counties in the southeast, where roughly one-third of the rural poor reside (33.7%), participation in the Food Stamp Program decreased by more than 20 percent in six of the eight states. We have prepared a state by state breakdown of food stamp participation trends in the 1980s that we'd be happy to distribute to members of the committee and other Senators interested in how their constituents fared.

Barriers to Participation in the Food Stamp Program

Numerous studies have documented the policies and administrative regulations that prevent many of the eligible poor from participating in the Food Stamp Program. Today, I would like to focus my discussion on the barriers that profoundly hamper the rural poor from participating in the program.

In our two reports; Patterns of Risk: The Nutritional Status of the Rural Poor and Profiles of Rural Poverty: Facing Barriers to the Food Stamp Program, Public Voice identified and examined barriers to program participation for the rural poor which included:

Limited access to the food stamp office is a major barrier to the program. In many rural areas of the country, a county has only one food stamp office in a geographic area of several hundred square miles. Potential applicants must travel 20 to 30 miles, and frequently 50 miles to reach a food stamp office.

Lack of public transportation in many rural areas further compounds this problem. With little or no bus service many of the eligible rural poor are hindered from applying, or if they are on the program, from going back to the office for re-certification. In fact, our research revealed that many are forced to pay neighbors for rides to a food stamp office.

Lack of mail issuance of food stamp coupons is another significant deterrent to participation for the rural poor. Rather than receiving their food stamps in the mail many must go to the food stamp office every month to pick them up. This keeps many ineligible, particularly those who must travel large distances to redeem their coupons.

Vehicle asset limit serves as another barrier that affects a significant number of the most needy of the rural poor. The rural poor often depend on their vehicles to haul water and wood to their homes which often lack indoor plumbing or piped-in fuel. A dependable vehicle is a life-line for these rural families. The value of a reliable vehicle, such as a three-year-old pick-up truck, far exceeds the long outdated $4,500 food stamp vehicle asset limit, currently imposed by the program. Any value above this level is counted toward the overall household asset limit. Thus many of the most impoverished rural poor households, who would otherwise qualify for the food stamp program, become ineligible because of their vehicle.

Error rate sanctioning has had an adverse effect on program participation. Because this policy penalizes states financially for overissuances and payments to ineligibles and it does not penalize states for improper denials or terminations, states have been encouraged to err on the side of not enrolling potential eligibles into the program. The often heard motto for this policy is "if in doubt, don't hand it out."

Lack of information on the program's eligibility criteria is another barrier to the program. A report by the General Accounting Office (GAO), concluded that "no other factor had a sweeping impact on non-participation as did poor information concerning eligibility status." It was noted that this is a particular problem in rural areas where physical isolation heightens the problem.

A strong negative stigma attached to the program in many rural communities is another barrier. "Small town pride" keeps many eligible rural individuals and families away from food stamp offices. This negative stigma is particularly prevalent among the "new poor," which include farmers and other affected by recent economic declines.

In summary, the limited access to food stamp offices, the vehicle asset limit, error rate sanctioning and the lack of adequate eligibility information act in concert to disenfranchise

a significant number of the over five million rural poor who don't participate in the food stamp program.

Adequacy of the Rural Poor's Diet

Reaching out and enrolling all of the eligible rural poor into the Food Stamp Program and providing them with adequate benefit allotments to purchase a nutritionally adequate market basket is critical to their nutritional well-being. The rural poor are a group profoundly hampered by poor nutrition and by the debilitating health consequences that follow.

Public Voice has examined the nutritional status of the rural poor through comprehensive data collection and analysis of national nutrition data previously untapped for what it could reveal about the rural poor. Public Voice's 1986 study, Rising Poverty, Declining Health: The Nutritional Status of the Rural Poor, found that the rural poor do not consume adequate amounts of the essential nutrients, vitamin A, vitamin C, calcium and iron. The data revealed that almost one out of every two poor persons living in rural communities failed to consume even two-thirds of their daily Recommended Dietary Allowances (RDA) for these vital nutrients. In fact these analyses found that the rural poor were significantly more likely to have nutrient intakes lower than the U.S. non-poor for eight of nine essential nutrients.

Even when compared to the inner-city poor, the rural poor have lower intakes of key nutrients. According to findings from USDA's 1986 Continuing Survey of Food Intakes by Individuals (CSFII) rural low-income women aged 19-50 had lower intakes of vitamin A and vitamin C than did their urban counterparts.

As a direct result of the rural poor's inadequate intake of foods rich in essential nutrients, we have found that many exhibit clinical symptoms of advanced nutritional deterioration. In fact the rural poor are one and one-half times more likely to have vitamin A and vitamin C serum blood levels below acceptable standards as compared to the rural non-poor. Perhaps most shocking of all, is our finding that rural poor children were two and one-half times more likely than the rural non-poor to experience growth stunting; an important indicator of chronic malnutrition.

Our research has also documented the alarming status of infant health in the poorest rural counties; another indicator of the poor nutrition. Analyzing data from the National Center for Health Statistics for America's 332 poorest rural counties from 1975 to 1985, our study, Off To A Poor Start: Infant Health in Rural America, found that rates of infant mortality and infants born at dangerously low weights were dramatically higher in these counties than in the nation as a whole. Moreover, the study found that low birthweight rates in rural counties, already higher than national rates, had increased significantly during the 1980s. This trend dramatically reversed previous years of progress. Low birthweight babies are 20 times more likely to die in their first year of life, and those that live often suffer severe disabilities.

When nutritional status is even marginally compromised, it exacts the greatest toll on young victims. Among young children, poor nutrition impairs learning, cognitive development, and the ability to concentrate. Further, due to their lowered resistance to infections, marginally malnourished children tend to miss school more often, and are generally less motivated learners than well-nourished school-age children. Among adults, the effects are similar; lower resistance to infection, lower work productivity, diminished capacity for prolonged physical work and decreased worker motivation.

Poverty in Rural America

Contrary to popular belief, poverty is not primarily an urban phenomenon. In 1987 the poverty rate in rural America was 16.9 percent, while in metropolitan areas the poverty rate was 12.5 percent. In addition, the poverty rate in rural communities was almost as high as the 18.6 percent poverty rate in central cities for 1987.

In many ways, the profile of the rural poor is quite different from that of their urban counterparts. In comparison to the urban poor, the rural poor are more likely to:

1. **live in two-parent households:** Of all the rural poor who lived in families in 1987, 61.1 percent lived in families headed by two parents. By contrast, in central cities only 41.7 percent of the poor who lived in families lived in families headed by two parents.

2. **have a job:** Nearly two-thirds of rural poor families (64.4%) had at least one member working in 1987 and roughly one-

fourth (23.4%) had at least two workers. In contrast, just over one-half of their metropolitan counterparts (54.1%) had at least one worker and 15.9 percent had two or more.

3. **be less educated:** A significantly smaller proportion of the rural poor complete either high school or college than do their urban counterparts. According to the 1980 Census, 59 percent of rural persons 25 years of age or older had completed high school, and only 11.2 percent had completed four years of college. Comparable rates among central city poor were 64.9 percent and 17.9 percent, respectively.

4. **be older:** In 1983, the elderly accounted for 12.4 percent of the rural poor population, a figure almost 50 percent higher than for the central city poor.

5. **be non-minority:** In 1986, nearly three-quarters (73.5%) of the rural poor were white as compared to 52 percent of the urban poor being white.

In other words, those who work, those who are in two-parent families, and those who are elderly comprise a large majority of the nearly 10 million rural poor.

Recommendations to Provide Adequate Benefit Allotments

-- **Raise food stamp benefit allotments 17 percent above the cost of the Thrifty Food Plan starting in fiscal 1991.** Our study shows that a 17 percent increase in food stamp benefit allowances is necessary for the rural poor to obtain a minimum nutritionally adequate diet. This figure takes into account the percentage of purchases made in small/medium stores as well as supermarkets. Our findings concur earlier studies showing similar limitations in urban areas. Linda Neuhauser of the University of California, Berkeley, examined the cost of the Thrifty Food Plan in Los Angeles and Berkeley California in 1987. Her findings showed that the cost of the Thrifty Food Plan in Los Angeles' supermarkets was 15 percent higher, in medium stores was 26 percent higher and in small food stores was 38 percent higher than USDA's established cost. In Berkeley, Neuhauser found that costs were 22 percent higher in supermarkets and 48 percent higher in small food stores than USDA's established cost for the Thrifty Food Plan.

Liz Crockett, Kate Clancy and Beth Bowering of Syracuse University have just completed a study of the cost of the Thrifty Food Plan in 3 areas of New York State: an upstate urban county (Onondaga), an upstate rural county (Tioga) and New York City (specifically Brooklyn). They found that Thrifty Food Plan costs are higher than USDA's cost estimate at supermarkets in the rural area and Brooklyn. When the market basket costs were converted into cost indices using the current USDA Thrifty Food Plan cost estimate as 100, the market basket costs in supermarkets were 97.8 in Onondaga county, 101.7 in Tioga county and 106.6 (low-income) and 108.1 (outside low-income) in Brooklyn, When the market basket costs were converted into cost indices using the current maximum food stamp allotment as 100, the mean costs were 104.6 in Onondaga county, 108.9 in Tioga county and 114.1 and 115.7 in Brooklyn. Market basket costs in small stores were all consistently higher.

-- **Revise benefit allotments twice a year as they were in the late 1970s rather than once a year.** Each month the cost of purchasing the Thrifty Food Plan is updated using price indexes based on data collected by the Bureau of Labor Statistics. However, since 1980, food stamp benefit allotments are currently revised only once a year. In 1978 and 1979 food stamp benefits were revised twice a year. In any year food stamp benefits lag 3 to 15 months behind the actual cost of the plan. As a result, the lag in adjustments resulted in maximum food stamp allotments to households of four averaging 4.9 percent less than the calculated cost of the Thrifty Food Plan for a household of four between 1978 and 1984, according to an analysis conducted by the Congressional Budget Office.

-- **Re-evaluate the methodology used to determine food stamp benefits.** The base for cost estimates of the Thrifty Food Plan was set 24 percent lower than the actual expenditures of low-income families on whose consumption patterns the plan was derived. In addition, since the base was last set in 1983, the cost of the plan is updated annually. But the price indexes used are based primarily on food prices in supermarkets and the sample is selected only from urban areas. Moreover, the indexes are based on the average consumer, rather than the low-income consumer. Thus it is not clear whether the food prices used to update the cost of the Thrifty Food Plan remain reflective of food prices in low-income areas.

-- Index the $10 minimum benefit provided to one and two person households to reflect inflation. The current minimum benefit has not been increased since 1977, while the cost of the Thrifty Food Plan has risen 89 percent over this same period.

Recommendations to Improve Program Participation

-- Re-instate federal matching funds for mandatory state and local outreach efforts. Until 1981 Congress mandated and funded outreach activities in the food stamp program. Effective outreach efforts must be carefully designed so that they locate and serve the most needy. Specifically states should be encouraged to establish targeted outreach programs in the areas of greatest need in a state. And the information distributed should emphasize the program's eligibility criteria rather than information about the existence of the program.

-- Increase the vehicle asset limit of $4,500 to $5,500 and index this limit to reflect inflation. The current limit of $4,500 has not been adjusted since 1977, while the Consumer Price Index for automobiles has risen 120 percent since then. The President's Task Force on Food Assistance in January 1984 recommended that this limit be increased to $5,500 immediately.

Any amount by which the market value of a vehicle exceeds this limit is counted as a household assets. If total household assets exceed $2,000 for households other than the elderly, the household becomes ineligible for food stamps.

-- Exempt those households with either no piped in water or fuel, or establish a higher allowable value limit for one vehicle owned by such households before calculating its value toward the household's assets.

-- Forgive penalties owed by the states through fiscal 1990 for errors incurred under the error rate sanctioning policy. While Congress relaxed the penalty system in 1988, states still owe between $200 million and $400 million in outstanding fines. Congress has forgiven states for similar penalties in the AFDC program, but as yet has not forgiven penalties in the Food Stamp Program.

-- Change the household definition to better address the needs of a growing number of rural poor who live in over-crowded housing situations. By counting the income and resources of close relatives who are often forced to live together to reduce housing costs, many needy families are seriously penalized.

I would like to emphasize that addressing this aspect of the eligibility criteria would also have a beneficial effect on migrant farmworkers who continue to be among the most poorly served. In fact, despite their extreme poverty fewer than one-quarter of the nation's farmworkers currently receive food stamps.

-- Require states to issue food stamps by mail to all residents in a state, except where significant problems occur.

Two other recommendations Public Voice would like to make are:

-- Require USDA to encourage farmers in farmers markets to accept food stamps by easing the food stamp certification requirements for farmers. Currently each farmer must set up a separate bank account and apply to USDA for certification. Many farmers see the difficulty incurred in establishing a separate bank account as not worth the effort because they believe few food stamp users purchase food at farmers markets. The result has been that only a small number of farmers accept food stamps.

-- **Ensure that all small/medium food stores have the Electronic Benefit Delivery Systems in their stores.** Many of the rural poor receiving food stamps must shop in the smaller food stores for at least part of their groceries. On average, in persistently poor rural counties, there is only one supermarket every 284 square miles, while in metropolitan counties there is one supermarket every 27 square miles.

In addition, the electronic benefit delivery system must be provided at no cost to the food stores. Many of the owners of food stores smaller than supermarkets would be unable to purchase this equipment and thus would lose potential revenue from their regular customers who are on food stamps. In many small rural towns there is only one food store and the potential loss of food stamp revenues from the lack of electronic equipment could put these stores out of business.

I'd like to thank the committee again for asking Public Voice to testify this morning. The food stamp program continues to be an essential program to the nutritional well-being of the rural poor. We hope these hearings will provide the impetus to develop and implement policies that would improve participation and benefit levels in this worthwhile program.

Table 2: FOOD STAMP INFORMATION SHEET -- STATE OF THE STATES

State	% Poor Rural 1980(a)	State Poverty Rates 1980(b)	State Poverty Rates Mid80s(c)	# of Persons Receiving Food Stamps(d) July 1980 State	July 1980 Rural	July 1987 state	July 1987 Rural	% Change in Food Stamp Usage, 1980-1987 State	% Change in Food Stamp Usage, 1980-1987 Rural	Change in Poverty 1980-87(e)
CT	6.85%	9.0%	7.2%	170,920	11,709 *	111,077	7,609 *	-35.02%	-35.02%	none
ME	63.69%	13.0%	11.1%	165,106	92,418 *	93,876	59,790 *	-35.31%	-35.30%	decrease
MA	3.92%	9.6%	9.0%	452,947	17,755 *	296,260	11,613 *	-34.60%	-34.60%	decrease
NH	46.65%	8.5%	5.6%	52,682	24,576 *	18,552	8,641 *	-64.78%	-64.84%	decrease
NY	9.11%	13.4%	15.2%	1,805,254	129,725	1,617,631	124,115	-10.40%	-4.32%	increase
RI	8.13%	10.3%	11.2%	88,490	7,275 *	58,960	4,793 *	-34.12%	-34.12%	none
VT	79.92%	12.1%	10.2%	40,513	32,377 *	29,801	23,816 *	-26.44%	-26.44%	decrease
NE REGION	12.48%			2,756,922	315,835	2,235,937	240,376	-19.26%	-23.89%	
DE	37.63%	11.9%	11.3%	53,234	20,243 *	28,147	10,597 *	-47.13%	-47.65%	none
DC	0.00%			100,436	0	59,112	0	-41.14%	0.00%	n/a
MD	9.22%	9.0%	8.3%	332,463	24,472	246,689	17,784	-25.80%	-27.33%	decrease
NJ	0.00%	9.5%	9.5%	616,845	0	372,717	0	-39.58%	0.00%	none
PA	15.73%	10.5%	12.4%	992,966	129,343	951,702	167,496	-4.15%	14.03%	increase
VA	37.93	11.8%	10.6%	404,078	150,723	314,836	125,858	-22.09%	-16.50%	none
WV	71.68%	15.0%	22.0%	212,659	40,486 *	259,281	50,116 *	22.10%	21.92%	increase
MA REGION	20.40%			2,712,631	373,266	2,222,484	360,851	-17.70%	-3.33%	
AL	44.03%	18.9%	21.5%	608,166	275,203	426,409	194,536	-28.24%	-29.31%	increase
FL	12.73%	13.5%	13.3%	979,579	107,568	605,722	81,289	-38.17%	-24.43%	none
GA	46.68%	16.6%	15.6%	645,302	305,840	466,313	231,722	-27.74%	-24.23%	none
KY	67.30%	17.6%	18.5%	484,255	312,519	469,629	325,135	-3.02%	4.04%	none
MS	79.95%	23.9%	25.6%	521,290	414,957	501,130	397,032	-3.87%	-4.32%	increase
NC	55.85%	14.8%	14.0%	392,344	339,500	309,070	235,137	-32.49%	-30.74%	decrease
SC	50.10%	16.6%	17.6%	449,200	245,243	273,994	156,266	-39.01%	-36.28%	none
TN	60.55%	16.5%	17.0%	462,836	242,254	405,683	186,275	-26.73%	-23.11%	none
SE REGION	45.30%			4,942,981	2,263,084	3,638,740	1,807,392	-26.39%	-19.42%	
IL	17.93%	11.0%	15.0%	936,911	118,672	1,054,370	162,757	13.75%	47.06%	increase
IN	33.39%	9.7%	12.2%	388,267	116,023	314,491	97,812	-19.00%	-15.70%	increase
MI	21.43%	10.4%	14.4%	884,068	164,749	877,848	168,793	-0.79%	2.45%	increase
MN	49.95%	9.5%	11.5%	105,740	72,067	231,517	86,079	34.65%	20.55%	increase
OH	25.12%	10.3%	12.4%	897,219	210,128	1,070,422	267,191	19.31%	22.49%	increase
WI	30.15%	8.7%	11.0%	331,960	72,951	331,000	96,097	42.70%	31.73%	increase
MW REGION	26.68%			3,514,965	754,590	3,879,660	879,529	10.38%	16.56%	
AR	60.14%	19.0%	22.4%	305,018	307,493	231,934	162,779	-24.16%	-21.55%	increase
LA	39.67%	18.6%	20.0%	583,171	220,306	722,521	203,301	23.90%	10.88%	increase
NM	66.56%	17.8%	20.7%	194,666	131,367	150,781	111,662	-10.34%	-15.08%	increase
OK	56.33%	13.4%	15.5%	215,329	114,505	277,029	152,902	28.65%	33.53%	increase
TX	25.92%	14.7%	16.2%	1,168,854	277,994	1,664,762	366,688	25.31%	31.91%	increase
SW REGION	30.60%			2,467,628	969,665	2,855,087	1,077,332	15.70%	11.10%	
CO	25.19%	10.1%	10.8%	172,878	33,680	194,393	69,803	12.45%	67.87%	none
IA	63.60%	10.1%	16.5%	152,028	78,340	192,211	103,006	25.61%	31.49%	increase
KS	58.35%	10.1%	11.2%	98,410	43,965	118,963	62,436	20.89%	41.99%	none
MO	65.69%	12.2%	14.3%	354,018	161,605	374,163	163,017	5.65%	15.12%	increase
MT	80.88%	12.3%	16.3%	47,898	42,559	59,558	52,094	24.06%	24.28%	increase
NE	65.45%	10.7%	14.6%	72,072	44,171 *	100,169	65,561 *	38.98%	48.63%	increase
ND	73.59%	12.6%	14.9%	30,268	20,031	36,304	26,153	20.21%	25.61%	increase
SD	93.02%	16.9%	16.2%	46,283	41,391	52,634	47,154	13.77%	13.92%	increase
UT	27.09%	10.3%	11.9%	57,144	15,480 *	83,015	22,489 *	45.27%	45.28%	increase
WY	88.57%	7.9%	12.3%	15,741	13,941 *	28,505	25,246 *	81.09%	81.09%	increase
MP REGION	53.10%			1,048,324	475,953	1,240,015	617,749	18.29%	29.79%	
AK	70.33%	10.7%	10.4%	30,370	21,506 *	31,042	21,831 *	1.51%	1.51%	none
AZ	36.06%	13.2%	13.4%	221,301	79,904	202,267	87,161	-8.60%	9.08%	none
CA	5.65%	11.4%	13.4%	1,570,707	90,650	1,621,550	114,514	3.24%	26.31%	increase
HI	26.16%	9.9%	9.9%	104,354	25,232 *	83,657	19,986 *	-20.79%	-20.79%	none
ID	67.79%	12.6%	16.4%	69,736	50,318	58,079	49,209	-16.72	-15.62%	increase
NV	20.04%	8.7%	12.4%	34,400	4,274	33,760	4,864	-3.12%	13.80%	increase
OR	36.56%	10.7%	12.6%	209,350	76,541 *	203,885	74,540 *	-2.61%	-2.61%	increase
WA	26.16%	9.8%	11.7%	259,511	68,923	299,547	70,960	15.43%	2.97%	increase
W REGION	15.90%			2,500,036	425,356	2,532,787	443,073	1.31%	4.17%	

(a) derived from U.S. Census' City and County Data Book, 1988.

(b) U.S. Census' City and County Data Book, 1988.

(c) Defined as 1985-1987. Estimate of poverty rate from the Institute for Research on Poverty, University of Wisconsin.

(d) USDA's Food Stamp Statistical Summary of Project Area Operations Report--July 1980 & July 1987

(e) Increase or decrease noted if the difference between the 1980 poverty rate and the 1985-87 poverty rate was GREATER than the standard deviation of the 1985-87 poverty rate.

(*) Estimate of the number of rural persons receiving food stamps. It was derived by dividing the total number of persons in the state receiving food stamps by the proportion of rural poor in the state.

The **Chairman** [presiding]. Well, thank you very much, Ms. Haas, and I again appreciate your being here. You have been another in the forefront of this issue, and I think we have all benefited by that.

I will yield to Senator Harkin, the chairman of the Subcommittee on Nutrition and Investigations. As I said in my opening statement, Senator Harkin has done an enormous effort in this area not only in chairing hearings, but in helping us put together the coalition which so far seems to indicate some success in the followup to the bill 2 years ago.

Senator **Harkin**. Thank you, Mr. Chairman, and I want to repay the compliment in kind. I always point out with great satisfaction that when Senator Leahy took over the chairmanship of this committee in 1987, his first speech when we got together as members of the full committee was on this topic of hunger in America and what we would do to address it, and that set the whole tone for the committee. I have followed your lead ever since, and I appreciate that leadership very much, Mr. Chairman.

The **Chairman**. Thank you.

Senator **Harkin**. I would just like to submit my opening statement for the record, Mr. Chairman.[6]

In the interest of time, I won't bother to propound any questions to the panel. I know them all. I compliment them for their dedicated work in this area over many, many years, and I want to thank them for that and to assure you that we are going to do everything we can to get this bill through and to make sure that we update our provisions for food assistance, food stamps, for example setting the definition of a household back to where it should be again, addressing the issue of Puerto Rico that you raised, Mr. Grace, and overall making sure that those who are on the bottom of the ladder who have really fallen far behind in the last 10 years get help in meeting their daily nutritional requirements.

I know the next panel is going to talk about school lunches and breakfast programs that we also will focus on. I am convinced that we can do better in meeting the requirements of children in our schools through the breakfast programs and the lunch programs.

Again, I say thank you for everything, and I look forward to working with you as we move this legislation through.

Thank you, Mr. Chairman.

The **Chairman**. Thank you.

I might say, Mr. Grace, that I was pleased to read your recommendations for congressional action. I think they contain many good ideas that we will be able to use. I know your Food Stamp Reauthorization Task Force worked very hard on that.

And, Ms. Haas, I would hope that one of the goals of these issues is to try to demonstrate—obviously, coming from a rural State, you can understand my feeling on this—that we have both an urban problem and a rural problem. Sometimes we see the ads—everybody likes to use rural America in their ads because it kind of evokes these ideas of a quiet and nice life, and no crime and they show the fields and crops growing.

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[6] See p. 4–5 for the prepared opening statement of Senator Harkin.

I wish sometimes some of the candidates that use rural America as a backdrop would actually then support programs for rural America. I notice in your statement you speak about the rural poor who are so undernourished, and you stated that rural poor children are 2½ times more likely to show growth-stunting.

You will probably hear me repeating your statistic a number of times as the debate goes on because I want people to see that and to realize that not all of rural America reflects some of the bucolic Norman Rockwell type paintings, and that there is a part of us we do not see in the ads. I am glad that you have brought that out.

Mr. Greenstein, I just have one question I want to make sure I ask, and that is because I have watched some of the debates on television and other places where there is discussion of both cutting and increasing Federal funding for the School Lunch Program.

I heard one on, I think, the "Today Show" here recently where there was a debate that we are really increasing and improving and all will be well. I did not find the argument convincing, so I will ask you this. The administration has proposed both cuts and increases in Federal funding for the School Lunch Program. Is there merit in that, in your estimation, in their school lunch proposals?

Mr. GREENSTEIN. In a word, I think no. The administration, as I think you know, Mr. Chairman, has proposed to take a three-tier School Lunch Program and make it a four-tier School Lunch Program, which would require for the first time in the history of the School Lunch Program that children between 185 and 350 percent of the poverty line submit school lunch applications.

I think you would find that a number of those parents would not submit school lunch applications, and that as a result the school lunch prices for those children would go way up because if you don't have an application, you would lose the support that currently exists for all children who aren't low-income. And as they dropped out of the program and the prices went up further, the program would become harder to run. Some schools would probably drop out. When schools drop out, poor children don't get helped either.

So I would very much urge the committee not to adopt the administration's recommendation. I would say that I think the Office of Management and Budget—I believe this is where it came from—tried to be a little bit cute in this year's proposal.

Amidst a proposal to cut hundreds of millions of dollars from school lunch, they tried to slip a little sweetener in and said, well, we will lower the price from 40 cents to 20 cents for reduced-price meals for children between 130 and 185 percent of poverty, and, see, we are better than current law for this lower-income group. Therefore, some of our cut is going to be used to help, so you should adopt the whole thing.

Overall, however, it is a substantial cut, and probably even children between 130 and 185 would be worse off if schools dropped out of the program. I would like to say, though, one other item. I think you probably—and I say this with all due respect to the witnesses who will follow—I think that your next set of witnesses will probably urge you to adopt the administration's sweetener without the administration's cut, and to go ahead and cut the reduced-price lunch price from 40 to 20 cents for families between 130 and 185 percent of the poverty line, and then raise the 185 to 200 percent of the poverty line and extend it to the breakfast program as well.

In another year, with a lot of money, maybe if the defense budget comes down as much as I think you, Senator Leahy, and you, Senator Harkin, and I would like to see it come down, that would be something we could and should consider.

But this year I know we are going to get a limited allocation from the Budget Committee in the budget resolution, and it is going to be difficult just to do the proposals you have heard about this morning on food stamps and some of the proposals I expect you will get on TEFAP within that limit.

And I think that this year we have to concentrate on the poorest people. We shouldn't spend less on poor children at 50 percent of the poverty line to cut the reduced-price lunch for children at 180 percent of the poverty line. That is not the right choice to make.

I wish there weren't such a hard choice. Hopefully, there won't be, but I think almost inevitably there will be. There just isn't going to be enough money provided to do all of those things. And this is the year I think we have to address hunger among really poor children. Cutting the reduced-price lunch is nice, but it is essential that we deal with the homeless and children at 30 percent and 50 percent and 70 percent of the poverty line.

So I hope to come back in another year when there is more room in the budget and say that is a good idea. In the same vein that I urge you to concentrate on food stamp expansion before TEFAP expansion, because even with TEFAP having 75 percent of the benefits below the poverty line, food stamps has 98 percent, in the same vein I think we have to say that proposals for people between 130 and 200 percent of the poverty line are not as urgent, and we have to concentrate on what is most urgent first.

The CHAIRMAN. Thank you very much. I suspect the next panel, as you suggest, will probably want to comment on that, and I would ask them to do that in their statements. I thank you all very, very much for being here.

Ms. HAAS. Thank you.

Mr. GRACE. Thank you.

The CHAIRMAN. Would the next panel come up and Marshall Matz, who is the ASFSA legislative counsel, can introduce them.

Marshall is, again, another person who needs no introduction to the Senate Agriculture Committee. You have helped direct our activities from both sides of that table over the years, and perhaps you may want to introduce the panel and tell us which members of the panel will be testifying here today.

STATEMENT OF MARSHALL MATZ, LEGISLATIVE COUNSEL, AMERICAN SCHOOL FOOD SERVICE ASSOCIATION

Mr. MATZ. Mr. Chairman, thank you. I am delighted to introduce the members of the panel to you today from the American School Food Service Association: our president, Beverly Lowe, also the Director of Child Nutrition in Hampton, Virginia; our president-elect, Anne Gennings; Vivian Pilant, who is the chair of the Legislative

Committee and is the person you probably saw on the "Today Show" a few days ago.

The **CHAIRMAN**. I did, indeed.

Mr. **MATZ**. She did quite well, I think. Don't you agree?

The **CHAIRMAN**. That is why I mentioned that. In fact, I was already at work when that came on and my wife called me at the office to alert me to the fact that it was going to be on. So I saw it. Sorry. Go ahead.

Mr. **MATZ**. Also, from the great State of Vermont, we are delighted that Jo Busha was able to join us today, the Director of Child Nutrition. Joining the panel is Mr. Charles Hughes, whom we are delighted to see join us from AFSCME.

At this point, Mr. Chairman, I would like to turn the testimony over to our president. If I might just add one comment before I do—Mr. Greenstein did take the liberty of characterizing our testimony. I would say that probably our higher priority before we go forward is just to maintain current services. In order to maintain current services in school lunch this year we have to address the $300 million loss in commodities, which is a significant problem all across the country right now. The $300 million loss in commodities is approximately 7 or 8 cents per meal, per child. That is a big problem.

So with that background, let me turn it over to our president, Beverly Lowe.

The **CHAIRMAN**. For one moment, Ms. Lowe, before you start, I might also just say, if you will allow me just kind of the parochial privilege of being the Chair of this committee, to welcome Ms. Busha here.

As Mr. Matz knows, I represent a very small State, but what we lack in numbers, we make up for it in quality of our people. And it is always a great pleasure for me as a Vermonter to see another Vermonter down here.

Ms. Lowe, please.

STATEMENT OF BEVERLY LOWE, PRESIDENT, AMERICAN SCHOOL FOOD SERVICE ASSOCIATION, AND DIRECTOR OF CHILD NUTRITION, HAMPTON, VA

Ms. **LOWE**. Thank you very much. I have looked at my watch and I know the lunch hour for you all is approaching.

The **CHAIRMAN**. I hate to say this at a nutrition hearing, but I hate to even tell you the number of times a week that whatever time is set aside for my lunch during the day gets canceled. I never get to lunch, or if I do it is grabbing a sandwich, running down the hall. But, please, feel free to take whatever time you need, Ms. Lowe.

INTRODUCTION

Ms. **LOWE**. Well, I wanted to tell you that even though I am here, lunch is not canceled for my children at home. My staff is feeding them. The same is true for the other ASFSA members in the audience. We appreciate the funding that you help make available for all of our Nation's children.

NATIONAL SCHOOL LUNCH PROGRAM IS AT A CROSSROADS BOTH PHILOSOPHICALLY AND FINANCIALLY

The National School Lunch Program, Mr. Chairman, is the Nation's largest nutrition program. It is at a crossroads both philosophically and financially. Indeed, it is in trouble. The administration is proposing changes to the child nutrition programs that would reduce Federal support by $516 million, with $235.4 million coming from the School Lunch Program. This reduction in Federal funds would be on top of the $300 million loss in bonus commodities we have experienced over the last several years. In addition, the administration's school lunch proposal would create a fourth income category, which you have already heard about, which would require all of us to document and verify household income for the vast majority of the households who have children in our schools. ASFSA believes that the administration's proposal would take us in the wrong direction and should be rejected.

Senator Leahy, you have rejected the cuts this morning, which we deeply appreciate, but that still leaves a major problem with the loss of commodities.

HUNGRY CHILDREN DON'T LEARN, AND ILLITERATE ADULTS CAN'T COMPETE IN THE SMALLER AND SMALLER WORLD COMMUNITY

Hungry children don't learn, and illiterate adults can't compete in the smaller and smaller world community. The United States cannot reach its education goals without adequate nutrition programs. If the United States cannot yet afford a peace dividend, the Nation's children cannot afford a peace penalty.

In Japan, 98 percent of all children in elementary schools receive a school lunch. In the United States, we serve 2 million children a day less than we did when the budget cuts were effected in 1981. The United States continues to treat the School Lunch Program more as a welfare program than as an education and nutrition program to be integrated as part of the educational goals of this country.

BUSH PROPOSAL IS THE WRONG WAY TO GO

Just a few months ago, Congress passed the Child Nutrition and WIC Amendments of 1989, Public Law 101-147, which made important strides toward reducing the administrative complexity of the program. The administration's proposal to create a fourth income tier in the National School Lunch Program moves in the exact opposite direction.

President Bush's proposal would eliminate all Federal support to students with family income over 350 percent of the poverty line. This 350 percent cutoff is higher than the proposals previously rejected by Congress, but the philosophy is still the same and it is still wrong. Section 4 subsidies are not a transfer of payment to individual students, as this budget proposal implies. Section 4 of the National School Lunch Act provides a general assistance, a grant-in-aid to the schools to help defray the general costs associated by having a program in our buildings. When schools drop out of the National School Lunch Program, all children in that school, including the poor, are disenfranchised from having any benefits. This was the experience in 1981 after Congress enacted a $1.5 billion child nutrition cut; and this would be the experience again in 1991 if the Congress were to enact the Bush proposal.

20-CENT LUNCH WILL HELP STRETCH THE FOOD DOLLAR

I am not going to elaborate on the reduced-price lunch proposals but I will tell you a personal experience. In reviewing lunch applications, we find that some of our working poor cannot afford 40 cents, and a 20-cent cost would help those people stretch their food dollars just a little further.

Many of the people that you are addressing in the previous testimonies are our customers, and we want to serve all customers, not just the poor. We have a program for all children.

THE UNITED STATES MUST INVEST IN CHILDREN IF WE ARE TO MOVE FORWARD

The United States must invest in children if we are to move forward. The sad truth is that in some schools today children go to school specifically to participate in the meal program and then leave school after lunch.

It was President Nixon who, 20 years ago, sounded the alarm while he addressed the White House Conference on Food, Nutrition and Health in December of 1969. He said:

> Malnourishment is a national concern because we are a nation that cares about its people, how they feel, how they live. We care whether they are well and whether they are happy. * * *
>
> Even in purely practical terms there are compelling considerations requiring this challenge to be met.
>
> A child ill-fed is dulled in curiosity, lower in stamina, distracted from learning. A worker ill-fed is less productive, more often absent from work. The mounting cost of medical care for diet-related illnesses; remedial education required to overcome diet-related slowness in school; institutionalization and loss of full productive potential; all of these place a heavy economic burden on society as a whole.

It is time as we approach the 21st century that we recommit ourselves to the objectives identified at that White House conference.

Mr. Chairman, we have attached to our testimony the 1990 ASFSA legislative issue paper. In addition, there are two letters to the Department of Agriculture which are quite recent that we would like to have a part of this testimony.

[The letters referred to can be found on pp. 116–118.]

My copanel members—two of them have a brief statement to share with you. We would then be happy to answer questions. I thank you for the opportunity of being here, and rest assured the lunch program is in good hands.

Thank you.

[The prepared statement, attachment A, Comparison of Federal and State Review Standards, 1990 Legislative Issue Paper, table, USDA Bonus Commodities, and letters of Ms. Lowe follow:]

STATEMENT OF
THE AMERICAN SCHOOL FOOD SERVICE ASSOCIATION
BEFORE THE
COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY
UNITED STATES SENATE
FEBRUARY 27, 1990

Mr. Chairman, members of the Committee, I am delighted to be with you this morning. I am Beverly Lowe, President of the American School Food Service Association, and the Director of Child Nutrition in Hampton, Virginia. Joining me at the witness table is Anne Gennings, the President-elect of ASFSA and Director of School Food Services from New Hartford, New York; Vivian Pilant, the Chairman of our Public Policy and Legislative Committee, and Director of Child Nutrition for the State of South Carolina; and Marshall Matz, our Legislative Counsel with the law firm of Holland & Knight. Also joining us this morning are ASFSA members from every state, including the Director of Child Nutrition from the great State of Vermont, Jo Busha.

Mr. Chairman, the National School Lunch Program is at a cross roads both philosophically and financially. The Administration is proposing changes to the child nutrition programs that would reduce federal support by $516 million, with $235.4 million coming from the School Lunch Program. This reduction in federal funds would be on top of the $300 million loss in bonus commodities we have experienced over the last several years. In addition, the Administration's school lunch proposal would create a fourth income category that would require school administrators to document and verify the household income of the vast majority of all U.S. households with children in school. ASFSA believes that the Administration's proposal would take us in the wrong direction and should be rejected.

Hungry children don't learn, and illiterate adults can't compete in a smaller and smaller world community. The United States cannot reach its education goals without adequate nutrition programs. If the United States cannot yet afford a peace dividend, the nation's children cannot afford a peace penalty.

In Japan, 98% of all children in elementary school receive a school lunch. In the United States, we still serve two million children a day less than we did before the 1981 budget cuts. The United States continues to treat the school lunch program more as a welfare program than as an education and nutrition program to be integrated into the education goals for the country.

Just a few months ago, the Congress passed the Child Nutrition and WIC Amendments of 1989 (Public Law 101-147) which made important strides toward reducing the administrative complexity of the program. The Administration's proposal to create a fourth income tier in the National School Lunch Program moves in the exact opposite direction.

President Bush's proposal would eliminate all federal support attributable to students with family income above 350% of the poverty line. The 350% cutoff is higher than the proposals previously rejected by the Congress, but the philosophy is the same --- and wrong. Section 4 subsidies are not a transfer payment to individual students, as the budget proposal implies. Section 4 of the National School Lunch Act provides a general assistance grant-in-aid to the school to help defray the general costs associated with operating a national school lunch program for all children, including poor children. When a school drops out of the National School Lunch Program, all children in the school, including poor children, are disfranchised from the program. This was the experience in 1981 after the Congress enacted a $1.5 billion child nutrition cut; and this would be the experience again in 1991 if the Congress were to enact the Bush proposal.

Mr. Chairman, having disagreed with the President on the philosophy underlying his budget cut, ASFSA would like to commend President Bush and the Administration for the proposal to lower the cost of a reduced price lunch from 40¢ to 20¢. We agree that people with low income jobs are those in greatest need of additional assistance. ASFSA would hope that the Congress moves swiftly to enact this important initiative. The cost of $54 million is well worth the investment. The 1991 federal budget devotes only half of 1% to child nutrition.

In addition, ASFSA believes that the reduced price proposal should be extended to the School Breakfast Program as well, and that the income guideline for a reduced price lunch be raised from the current 185% of poverty to 200% of poverty. Households with income near the current reduced price guideline are having the most difficulty paying full price, which in some parts of the country can be as high as $1.25 or $1.50 per meal.

The United States must invest in our children if we are to move forward. The sad truth is that in some schools today children go to school specifically to participate in the meal program and then leave the school after the lunch is served.

Twenty years ago it was President Nixon who sounded the alarm. Addressing the White House Conference on Food, Nutrition and Health (December 2, 1969), President Nixon said:

> Malnourishment is a national concern because we are a nation that cares about its people, how they

feel, how they live. We care whether they are well and whether they are happy.

* * *

Even in purely practical terms there are compelling considerations requiring this challenge to be met.

A child ill-fed is dulled in curiosity, lower in stamina, distracted from learning. A worker ill-fed is less productive, more often absent from work. The mounting cost of medical care for diet-related illnesses; remedial education required to overcome diet-related slowness in school; institutionalization and loss of full productive potential; all of these place a heavy economic burden on a society as a whole.

It is time, as we approach the 21st century, that we recommit ourselves to the objectives identified at the White House Conference.

Mr. Chairman, we have attached to our testimony the 1990 ASFSA Legislation Issue Paper. My co-panel members would each like to comment briefly on one of the items. We would then be happy to answer any questions that you may have on the Issue Paper or on our testimony.

Thank you again for the opportunity to be with you this morning and for the special effort made by the Committee to coordinate this hearing with the ASFSA Legislative Action Conference.

ASFSAT02:255

ATTACHMENT A

COMPARISON OF FEDERAL AND STATE REVIEW STANDARDS

STATE (AIMS) REVIEW REGULATORY PROCEDURES (7CFR 210.19)	FEDERAL REVIEW PROCEDURES
(1) Tolerance: 10% error rate on first reviews; variable rate on second.	(1) Tolerance: None
(2) Disallowance Procedures:	(2) Disallowance Procedures:
(1) Reclaims not required on first reviews.	(1) Reclaims executed on all reviews.
(2) No reclaim for failure to follow "verification" procedures.	(2) Reclaim for failure to follow "verification" procedures.
(3) No prescribed definition for "collapse in meal counting system" (Performance Standard 2, AIMS).	(3) "Collapse in meal counting system" defined at national level leading to reconstruction of meal counts and largest overclaims.
(4) No forward-projected reclaims.	(4) Forward-projected initial reclaims based on assumptions that errors would not be corrected after exit and that liabilities would continue to build through the school year.
(3) Review Period:	(3) Review Period:
One reporting month.	Up to entire school year.
(4) District Selection:	(4) District Selection:
All districts reviewed on a four-year cycle with follow-up visits prescribed by regulation.	Random in SY 89 due to directive in Congressional Conference Report language. In SY 90, districts will be targeted under the federal review system.
(5) School Selection:	(5) School Selection:
Random or based upon states' own criteria on first review of schools. Random on second reviews. Minimum number of schools to review specified in regulation.	50% random and 50% targeted using free and reduced-priced eligibles and an attendance factor. No established number of schools to review. In SY 90 schools will be targeted.

American School Food Service Association

1990 Legislative Issue Paper

Invest in Our Children: Toward a National Nutrition Policy

WHEREAS, the American School Food Service Association is deeply committed to the nutritional health and well-being of the nation's children;

WHEREAS, on November 10, 1989, President Bush signed into law the Child Nutrition and WIC Amendments of 1989 (P.L. 101-147);

WHEREAS, on January 8, 1988, President Reagan signed into law the Commodity Distribution Reform Act of 1987 (P.L. 100-237);

WHEREAS, the Administration has proposed a child nutrition budget cut of $516.6 million, on top of a $300 million loss in bonus commodities;

WHEREAS, the American School Food Service Association supports efforts of the National Governors' Association to identify federal regulations, administrative mandates and statutes that impede state and local flexibility;

THEREFORE, the American School Food Service Association endorses the following positions for 1990:

USDA BONUS COMMODITIES

1. USDA bonus commodities (commodities received by schools over and above those to which they are entitled by law) have been a very significant part of the federal support for child nutrition during the 1980s. In 1987 schools received $442 million in USDA bonus commodities; in 1988 USDA bonus commodities were reduced to $372 million; in school year 1989 bonus commodities were further reduced to $324 million.

In the current school year bonus commodities will drop to $125 million, for a *decrease of $300 million from 1987.* Further, $100 million of the $125 million in 1990 will be just one commodity: butter. ASFSA supports the Congress taking appropriate action (perhaps as part of the 1990 Farm Bill) to offset or mitigate the loss in federal support as a result of the decline in USDA bonus commodities in schools.

CHILD NUTRITION BUDGET CUTS

2. ASFSA strongly opposes all child nutrition budget cuts proposed by the Administration for fiscal year 1991—school lunch and child care. The proposed cut of $516.6 million comes on top of a $300 million loss in USDA commodities to schools over the last few years.

The Administration has proposed eliminating all general assistance support (Section 4) for schools attributable to students with high family income. This proposal is very similar to the proposal offered by Congressman Dick Armey (R-Texas) on several occasions during the 1980s. On September 18, 1985, during consideration of HR 7, Congressman Armey offered an amendment that would eliminate all federal subsidies (i.e. Section 4) attributable to students with family income above 250 percent of the poverty line. The amendment was rejected by the House 279 to 146.

In 1987, Congressman Armey circulated a "Dear Colleague" letter seeking support for a similar amendment. The amendment was not pursued at that time due to a lack of support.

President Bush's proposal chooses an income guideline higher than that proposed by Congressman Armey (the President's proposal chooses an income guideline of 350 percent of the poverty line) but the philosophy is the same as the Armey amendment—and wrong.

Section 4 subsidies are not a transfer payment to individual students, as the budget proposal implies. Section 4 of the National School Lunch Act provides a general assistance grant-in-aid to the school to help defray the general costs associated with operating a national school lunch program for all children.

When a school drops out of the National School Lunch Program, all children in the school, including poor children, are disenfranchised from the program. This was the experience in 1981 after Congress enacted a $1.5 billion child nutrition cut; and this would be the experience again in 1991 if Congress were to enact the Administration's proposal.

In addition to the school lunch program proposal being wrong on policy grounds, it would be an administrative nightmare. In order to implement the proposal, schools would have to collect income data on the vast majority of the households in America with children. The data would then have to be documented and verified. The combination of decreased federal funding and increased federal red tape would clearly drive many schools throughout the country from the National School Lunch Program. This would be tragic at a time when our country needs to invest more in our children and develop a U.S. work force that can compete effectively throughout the world. Hungry children don't learn, and illiterate adults can't compete.

REDUCED PRICE INITIATIVE

3. ASFSA supports the proposal made by President Bush to lower the cost of a reduced-price lunch from 40 cents to 20 cents. ASFSA believes this reduction in price should also apply to the school breakfast program.

Further, ASFSA supports an increase in the reduced-price income guidelines. The current cut-off of 185 percent of poverty keeps many families who are struggling to make ends meet from participating in the reduced-price program. ASFSA supports raising the reduced-price guideline to 200 percent of the poverty line.

SCHOOL FOOD SERVICE MANAGEMENT INSTITUTE

4. The Child Nutrition and WIC Amendments of 1989 (P.L. 101-147) authorized the creation of a USDA School Food Service Management Institute. The goal of the Institute is to assist schools throughout the country in providing high quality, nutritious and cost-effective meal service to children. ASFSA supports an appropriation of $4 million, as authorized by P.L. 101-147.

NUTRITION EDUCATION AND TRAINING PROGRAM

5. When the Nutrition Education and Training (NET) Program was enacted in the late 1970s, it was funded at the level of 50 cents per child per year, or $25 million. The appropriation was cut to $5 million as part of the Omnibus Reconciliation Act of 1981. The Child Nutrition and WIC Reauthorization Act of 1989 increases the authorization for the NET program to $10 million for FY 1990, and $15 million for FY 1991. However, only $5 million was appropriated for 1990 and only $5 million is proposed in the Administration's budget for 1991. ASFSA supports an appropriation of $15 million for FY 1991.

The Child Nutrition and WIC Reauthorization Act of 1989 (P.L. 101-147) requires that USDA publish dietary guidance for child nutrition programs and that schools implement that guidance. This requirement, along with the publication of the revised U.S. Dietary Guidelines, will require extensive nutrition education for students, teachers and school food service personnel. Therefore, full funding of the NET program is essential.

COMPETITIVE FOODS

6. Realizing that foods served at school in competition with the lunch program may have an adverse nutritional impact on children and/or an adverse financial impact on the child nutrition program, ASFSA supports legislation that would reestablish the authority of the Department of Agriculture to regulate the sale and service of competitive foods in schools from the beginning of the school day to the end of the last lunch period.

USDA had promulgated such regulations but the U.S. Court of Appeals has ruled that the regulations exceeded the Secretary's statutory authority. This matter was not addressed by the Child Nutrition and WIC Reauthorization Act of 1989.

MEAL SUPPLEMENTS FOR CHILDREN IN AFTER-SCHOOL CARE

7. The Child Nutrition and WIC Reauthorization Act of 1989 established authority allowing the Secretary of Agriculture to carry out a program to assist States in providing supplements (snacks) to children in after-school care in eligible elementary and secondary schools. Under the statute, however, to be eligible the school must have participated in the Child Care Food Program on May 15, 1989. ASFSA supports legislation deleting the May 15, 1989 date, thereby allowing all school lunch program participants to operate the supplement program as part of the National School Lunch Program.

NUTRITION LABELING AND FOOD SAFETY

8. A. ASFSA supports the Dietary Guidelines for Americans and therefore supports legislation that would require USDA to label all USDA commodities with the same type of nutritional information used by the Food and Drug Administration for food products that make a nutritional claim.

B. ASFSA supports the dissemination of timely and accurate information on environmental and food safety issues by the Food and Nutrition Service to school food authorities participating in USDA programs.

SPECIAL MILK PROGRAM

9. ASFSA supports the expansion of the special milk program to include preschool and kindergarten students. The special milk program is limited to "milk only" schools and split-session kindergartens.

STATE ADMINISTRATIVE EXPENSES

10. A. ASFSA supports providing State Administrative Expenses for the Commodity Distribution Program. ASFSA supports expanding the S.A.E. earnings formula to include the value of entitlement commodities. The Commodity Distribution Program is an important part of the federal support for child nutrition and should be included in the S.A.E. formula.

B. ASFSA supports increasing the minimum grant for State Administrative Expenses to $250,000. The current minimum grant of $100,000 has not been increased since 1981.

C. ASFSA supports increasing the earnings formula for SAE from a range of 1 to 1.5 percent to a minimum of 1.5 percent.

NATIONAL ADVISORY COUNCIL ON COMMODITIES

11. The Commodity Distribution Reform Act (P.L. 100-237) established a USDA National Advisory Council on Commodity Distribution. ASFSA supports the continuation of the National Advisory Council on Commodity Distribution through 1994, as the work and mission of the Council is not yet complete.

DISTRIBUTION OF USDA DONATED FOODS

12. The Commodity Distribution Reform Act (P.L. 100-237) requires each state distributing agency to evaluate its warehousing and distribution systems, and to use commercial facilities unless the state applies for and is granted a waiver by USDA. The National Advisory Council on Commodity Distribution has recommended, and ASFSA supports, an exemption from this statutory requirement where the majority of costs for warehousing and distribution are paid by state and/or local funds and recipient agencies are not charged storage and/or delivery fees.

Prepared by the Public Policy and Legislative Committee, American School Food Service Association.

Headquarters Office: 1600 Duke St., 7th Floor, Alexandria, VA 22314; (800) 877-8822 (703) 739-3900
Washington Counsel: Marshall Matz; Holland & Knight, 888 17th St., N.W., Suite 900, Washington, D.C. 20006
ASFSA Hotline: (800) 877-1788 (recorded child nutrition legislation information) **FAX:** (703) 739-3915

USDA BONUS COMMODITIES

SECTION 32-TYPE COMMODITIES (GROUP A)	FY 1987	FY 1988	FY 1989	FY 1990 (est.)
Apple Slices, Canned		$ 1,849,366		
Applesauce, Canned		$ 4,202,642		
Beef, Frozen Roasts	$ 2,462,082			
Beef, Frozen Ground	$ 50,141,229	$ 19,645,211	$ 34,586,505	
Beef, Canned, W-NJ-Origin	$ 11,863,498			
Blackberries, Frozen		$ 819,066		
Cherries, Frozen Red Tart Pitted	$ 4,635,850	$ 1,573,112		
Cherries, Frozen			$ 5,273,063	$ 5,273,063
Chicken, Nuggets, Frozen			$ 2,494,082	
Date Pieces		$ 1,773,242	$ 1,837,899	$ 1,837,899
Egg Mix		$ 140,400	$ 3,464,513	
Eggs, Whole, Frozen		$ 1,242,214	$ 5,900,150	
Figs, Dried	$ 1,689,023	$ 892,648	$ 949,886	$ 949,886
Ham, Frozen Uncooked Boneless	$ 11,606			
Lamb, Frozen Ground	$ 147,139			
Pears, D'Anjou, Fresh		$ 567,137	$ 407,671	$ 407,671
Pears, Bosc Fresh		$ 39,135		
Pork, Frozen Ground			$ 10,038,377	
Potato Rounds, Frozen	$ 381,568			
Potatoes, Dehydrated	$ 3,002,681			
Potatoes, Dehydrated Granules	$ 1,623,911			
Potatoes, Fry	$ 548,536			
Prunes, Dried, Pitted		$ 1,122,072	$ 3,017,295	$ 3,017,295
Walnuts, English Pieces		$ 3,328,301		
TOTAL GROUP A	$ 76,507,123	$ 37,194,546	$ 67,969,441	$ 11,485,814
SECTION 416-TYPE COMMODITIES (GROUP B)				
Butter	$117,651,030	$106,897,021	$ 97,588,149	$ 97,588,149
Butter Oil	$ 352,512	$ 829,138	$ 992,909	$ 992,909
Butter Patties, SOC			$ 720,981	$ 720,981
Cheese Process	$116,457,040	$106,615,377	$ 92,377,093	
Cheese, Cheddar	$ 56,428,059	$ 45,109,659	$ 39,211,025	
Cheese, Mozzarella	$ 39,512,725	$ 39,901,004		
Cornmeal			$ 944,438	$ 944,438
Flour	$ 3,472,991	$ 4,463,422	$ 9,333,387	$ 9,333,287
Honey	$ 5,658,977	$ 5,344,261	$ 5,369,218	$ 5,369,218
Milk, Non-fat Dry	$ 23,454,721	$ 22,148,016	$ 10,437,125	
Rice, Milled	$ 2,952,941	$ 3,832,244		
TOTAL GROUP B	$365,940,996	$335,140,142	$256,974,325	$114,948,982
GRAND TOTAL GROUP A & B	**$442,448,119**	**$372,334,688**	**$324,943,766**	**$126,434,796***

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*1990 estimate eliminates those commodities that are not available, and projects the same usage for those commodities that are available.

AMERICAN SCHOOL FOOD SERVICE ASSOCIATION

February 7, 1990

Ms. Catherine Bertini, Assistant Secretary
Food and Consumer Services
United States Dept. of Agriculture
Room 207, West Administration Bldg.
14th and Independence Avenue
Washington, D. C. 20250

Dear Ms. Bertini:

State agencies understand that the third and final report to Congress on initial federal review activity is pending publication. We are concerned that problems with the first and second interim reports be corrected. Please allow me to share with you these concerns in anticipation that you might see their validity and in hopes they can be addressed in the third and final report.

- First and second interim reports imply that state reviews and audits are unsuccessful, because they did not reclaim as much money from schools in SY 88 as FNS anticipates they have reclaimed under federal reviews in SY 89.

FNS staff recognize that regulatory review standards to which states were required to adhere through SY 89 were significantly different from standards developed and used by FNS. This fact is illustrated on Attachment A.

A close examination of these different standards is the key to understanding our concerns regarding the intent and message that a report to Congress by FNS portends. If it is unclear that different standards were followed, then we feel Congress will be misled into thinking that states are not committed to program integrity.

- First and second interim reports rightfully have not cited dollars reclaimed through federal reviews. FNS has stated that in order for them to get a timely report to Congress they anticipate using initial dollar amounts to calculate average dollar reclaims. States report that initial amounts differ significantly from final amounts (where available) due to "correctable technical errors," "forward-projected reclaims," "reconstruction of meal counts," and "disputed amounts."

1600 Duke Street, 7th Floor / Alexandria, Virginia 22314
(703) 739-3900 / (800) 877-8822 / FAX (703) 739-3915

Ms. Catherine Bertini
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February 7, 1990

States feel strongly that any information going to Congress should include actual dollars reclaimed as well as the nature of errors which generated the reclaim.

- A third concern of states is that interim reports imply fraudulent mismanagement of child nutrition programs. This concept is further enchanced by FNS's request for an increase in FY 91 administrative funds to establish a new program accountability division to evaluate fraud and integrity problems in WIC and the Child Nutrition Programs.

Interim federal review reports to Congress are filled with terms such as "state of accountability," "major accountability problems," "inflated meal counts," and "program integrity problems." The use of such terminology implies that fraudulent activities were found to abound when the vast majority of findings could be attributable to technical errors as a result of (1) parents having misunderstood the 14th-plus-grade-level application or (2) school administrators facing more pressing school demands than to see that applications were error free. Other examples of technical errors cited are: total income in lieu of monthly income; income by source missing; missing social security numbers; and clerical errors in calculating income, therefore, miscategorized student eligibility.

We realize that SY 90 is a transitional year toward implementation of (1) "a unified review system" as authorized by P.L. 101-147 and (2) Accuclaim regulations. Our concern over this report on SY 89 federal review activity remains, however, a primary concern.

Thank you in advance for your attention. Perhaps in the near future when your schedule allows you to meet with representative state directors, we can discuss this and other goals related to strengthening child nutrition programs.

Thank you.

Sincerely,

Annette Bomar

Annette Bomar, Chair
State Directors and Supervisors Section

AB:kp
Attachment
cc: Mrs. Beverly Lowe
Ms. Anne Gennings
Mr. Marshall Matz
State Directors

AMERICAN SCHOOL FOOD SERVICE ASSOCIATION

February 16, 1990

The Honorable Catherine Ann Bertini
Assistant Secretary for Food and Consumer Services
United States Department of Agriculture
14th and Independence Avenue, Southwest
Washington, D. C. 20250

SUBJECT: Paperwork Reduction

Dear Ms. Bertini:

Section 108 of the Child Nutrition and WIC Reauthorization Act of 1989 (P.L. 101-147) amended Section 19 of National School Lunch Act (42 U.S.C. 1769a) with regard to paperwork reduction. This amendment stated that the Secretary shall, to the maximum extent possible, reduce the paperwork required of state and local educational agencies, schools, and other agencies participating in nutrition programs.

The proliferation of paperwork at the state level has become very burdensome. The filing of 30, 60, and 90 day Reports of Operation, separate AIMS reports, expansion of records of reviews, separate requests for funds under the letter of credit system, expansion of the 269 report of financial activity (now separated with a special nutrition education and training report), additional filing of requests for reimbursement to reflect overclaims when the fiscal year is closed, and additional pages of data in order to conduct reviews, are examples. In addition, the advent of the federal review requires new information to be forwarded to the regional offices for use in selecting districts.

The local educational agencies have also had additional paperwork requirements. They are, at the school level, checking meal counts against previous average daily participation by type of meal, expanded production records, keeping of documentation that the preceding was done. At the district level, forms have had to be developed for the required on-site visit (and in some cases a written corrective action plan), another comparison of each school's records of the school's daily count indicating the average daily participation by category, and the application of an attendance factor. All of these have required the districts to develop new forms, expand computer requirements (if indeed available), and keep documentation. Adding this to the application and verification process has overwhelmed the local personnel.

The Public Policy and Legislative Committee of the American School Food Service Association recognizes that many of these requirements were prompted by the action of a few. The committee also senses a desire on your part to really examine these requirements and their effect on the well-being of the children. With this thought in mind, we would like to meet with you at your earliest convenience to discuss the requirements of P.L. 101-147 and to offer our services and help you to understand the magnitude of the problem. You recently received from our state directors section a letter with regard to federal reviews. If you think it feasible, maybe meetings on these topics can be combined. Please notify me at (803) 734-8195 when you can schedule a meeting.

Sincerely,

Vivian B. Pilant

Vivian B. Pilant, R.D., Chairman
Public Policy and Legislative Committee

cc: Marshall Matz, Attorney at Law
Holland and Knight

1600 Duke Street, 7th Floor / Alexandria, Virginia 22314
(703) 739-3900 / (800) 877-8822 / FAX (703) 739-3915

The CHAIRMAN. Thank you very much, Ms. Lowe.

Mr. Matz, what is next on your program?

Mr. MATZ. I am going to turn it over to our president-elect, Anne Gennings, for a few words.

The CHAIRMAN. Ms. Gennings, thank you and welcome. We look forward to seeing you here often, I am sure.

STATEMENT OF ANNE GENNINGS, PRESIDENT-ELECT, AMERICAN SCHOOL FOOD SERVICE ASSOCIATION, AND DIRECTOR OF SCHOOL FOOD SERVICES, NEW HARTFORD, NY

Ms. GENNINGS. Thank you. Good morning.

SCHOOL FOOD SERVICE IS IN TROUBLE

If anything, Beverly has understated the situation. Congress has rejected previous proposals by former Presidents of the United States to cut the child nutrition budget. We have nevertheless sustained back-door cuts in the commodity program which is a valuable asset to our feeding programs.

The $300 million loss in USDA commodities, which amounts to 7½ cents per meal, is having a tremendous impact on us. Senator Leahy, this committee would not have agreed to a $300 million cut in the past 2 years. Yet, this has happened. We know that the 1985 farm bill has worked well for America, but the consequence to children is a 7½ cent per meal cut in support. School food service is in trouble.

MANY OF US HAVE HAD TO RAISE PRICES AND, AS A RESULT, MANY STUDENTS CANNOT AFFORD TO EAT AT SCHOOL

Many of us have had to raise prices and, as a result, many students cannot afford to eat at school. There are 15,000 school districts in this country, and of those 5,000 have enrollments of 5,000 students or less. My district, New Hartford, New York, falls into this category. Our participation is 95 percent paid, and only 5 percent in the free and reduced-price category. These cuts could force my program to close, and I am very concerned about that.

SCHOOLS ARE BEING PUSHED TO THE BRINK

Schools are being pushed to the brink. The bottom line of the President's proposal is poor health and poor nutrition for our children, and this does not fit into the Nation's education goals. We all know that a hungry child cannot learn.

WE NEED YOUR HELP

We need your help, Senators, to get back on target. As the incoming president of ASFSA, I urge you in the name of our 65,000 members and in the name of this Nation's children to help them nutritionally, which will ultimately help them educationally. This is paramount to the country's future.

Thank you for this opportunity.

[Applause.]

The CHAIRMAN. Thank you very much. Ms. Pilant.

STATEMENT OF VIVIAN B. PILANT, CHAIR, PUBLIC POLICY AND LEGISLATIVE COMMITTEE, AMERICAN SCHOOL FOOD SERVICE ASSOCIATION, AND DIRECTOR OF CHILD NUTRITION, STATE OF SOUTH CAROLINA

INTRODUCTION

Ms. PILANT. I am Vivian Pilant, the chairman of the Public Policy and Legislative Committee. I am also the State Director of School Food Services in South Carolina, which administers both the child nutrition and food distribution program.

THE LEGISLATION THAT YOU INTRODUCED TODAY IS VERY IMPORTANT, AND WE ENDORSE IT

I think the legislation that you introduced today is very important, and we endorse it, but we are hoping as part of the farm bill that you can also help us get our commodities back. Perhaps the $15 billion success of the 1985 farm bill could be just a $14.7 billion success story. We are not asking for an increase in commodity support. We are really asking for a level of support we had 3 years ago.

UNDERSCORE THE IMPACT ON THE LOSS IN BONUS COMMODITIES

I really want to underscore the impact on the child nutrition program of the loss in bonus commodities. School districts are feeling the impact of the loss this year, and we know it will become only worse as more districts have to raise their lunch prices to cover these losses and even consider dropping out of the program altogether.

This loss in commodities has the same effect as a revenue cut. As districts have raised prices, fewer children are eating a nutritious school lunch. In October of 1989, there were 1 million fewer children eating a lunch at school in this country than the previous year, and this is only the first wave of school lunch dropouts as prices increase.

Many school districts not expecting a loss in cheese this school year were unprepared for the total nonavailability of commodity cheese, either bonus or entitlement. Some schools are having to borrow money to pay the bills. Many are seriously considering dropping out of the National School Lunch Program, and if that happens we will not be able to feed any children on the program.

The child nutrition program is the most effective Federal program for delivering food assistance to poor children. We cannot afford to lose the ability to serve these children, and yet that is where we are headed.

SOME PERSPECTIVE ON THE SITUATION

Just to give you some perspective on the situation, in my home State of South Carolina where all schools are now participating in the National School Lunch Program and 58 percent in the breakfast program, we are concerned that schools will drop the program.

Currently, we feed lunches to 88 percent of those children who qualify for free meals, and 75 percent to those who qualify for reduced price. Of the 182,000 students not participating in our State, 81 percent are children who do not qualify for free or reduced. In short, we have priced them out of the program already. If schools are forced to drop out of the program due to the increasing economic costs of the program, then the free and reduced children will also be affected.

THE SITUATION IS SERIOUS AND WE NEED HELP

The situation is serious and we need help if we are going to continue to offer a nutritious meal to all children. Surely, with the most productive agriculture in the world, we should ensure that all children of this Nation get a nutritious meal at school.

The **Chairman**. Thank you.

Ms. Busha.

STATEMENT OF JO BUSHA, MEMBER, AMERICAN SCHOOL FOOD SERVICE ASSOCIATION, AND DIRECTOR OF CHILD NUTRITION, STATE OF VERMONT

INTRODUCTION

Ms. **Busha**. Senator Leahy, I am Jo Busha. I am chief of the child nutrition programs for the State of Vermont. As you know, in a small State like Vermont we often receive the minimum of what is available, not being qualified to have more than the minimum.

IN VERMONT, WE FIND THAT SCHOOL FOOD SERVICE PROGRAMS ARE HAVING TO DO MORE WITH LESS

In Vermont, we find that school food service programs are having to do more with less. Schools are operating very close to the margins, and because of this year's reductions in commodities, school administrators are telling me that it is becoming increasingly difficult to offer the best programs possible. We are very hopeful that a way can be found to restore the level of commodities that were seen in the last few years and that we have been missing this year.

I thank you very much for the opportunity to be here today.

The **Chairman**. Thank you, Ms. Busha. I appreciate what you have said. I am concerned about the drop in commodities, and it is one of the areas that we want to address in the farm bill. What you have told me about our own State of Vermont, as you can well imagine, I am hearing the same thing from other States all over the country. It is an area of concern that we are going to have to address. Thank you.

Mr. Hughes.

STATEMENT OF CHARLES HUGHES, CHAIRPERSON, SCHOOL ADVISORY COMMITTEE, AND PRESIDENT, LOCAL 372, BOARD OF EDUCATION EMPLOYEES, DISTRICT COUNCIL 37, AMERICAN FEDERATION OF STATE, COUNTY AND MUNICIPAL EMPLOYEES, NEW YORK, NY

INTRODUCTION

Mr. **Hughes**. Mr. Chairman, my name is Charles Hughes and I am the chairperson of the American Federation of State, County and Municipal Employees, normally known as AFSCME, and under that organization there are 150,000 school employees throughout the United States of America. My parent union has 1.2 million members of State, county and municipal employees throughout this country.

Our members in New York, and staff, comprise the Nation's largest school feeding program in terms of both student participation and employees. On an average day, our members serve about 700,000 breakfasts and lunches.

I want to congratulate this committee on the major improvements which were made to the child nutrition programs in the 1989 reauthorization, particularly to the School Breakfast Program.

AT A TIME WHEN HUNGER STILL PLAGUES OUR NATION, PRESIDENT BUSH IS PROPOSING TO CUT

Unfortunately, Mr. Chairman, our work is far from being completed. At a time when hunger still plagues our Nation, President Bush is proposing to cut $516.6 million in school lunch and child care for the fiscal year 1991. The administration's proposal to eliminate all general assistance support attributable to students from families with income in excess of 350 percent of the poverty level will threaten the ability of many schools to serve lunch and breakfast programs to any of its students.

States and local school boards are not in a position to cover the resulting shortfall in operating costs. Certainly, this is the case in New York City. This leaves schools with only one alternative; that is, to increase meal prices.

EXPERIENCE HAS SHOWN THAT PARTICIPATION DROPS BY 1 PERCENT FOR EVERY PENNY INCREASE IN PRICE

However, this is a catch-22 situation. Experience has shown that participation drops by 1 percent for every penny increase in price. If the Bush administration proposal is adopted, history will repeat itself. Neither the school lunch or the School Breakfast Program have recovered from the drastic budgetary attacks of the early 1980's when the school lunch feeding program was cut by $1 billion. Two thousand schools dropped out of the lunch and breakfast programs, and 2 million fewer children eat a school lunch today than in 1981.

PARTICIPATION RATES

If the participation rates for the School Lunch Program are unsatisfactorily low, the participation rates for the School Breakfast Program are shamefully inadequate. While it is not good enough to have the School Lunch Program serve only half of our Nation's schoolchildren, 90 percent of our schools do offer the program. In comparison, however, less than one-third of our Nation's schools even offer breakfast to their students. 3.7 million school breakfasts are served each day to less than 8 percent of our school children.

The need to expand the breakfast program becomes even more urgent when we see that nearly 90 percent of the children currently eating breakfast in schools come from low-income households, as compared to 48 percent of those eating school lunches.

HUNGRY CHILDREN DO NOT LEARN

While parents and educators have always known that hungry children do not learn—and if I might pose for a moment, Mr. Chairman, long before the $1 billion was cut from the budget, this union undertook, at its own cost, to do a study in Bensonhurst, Brooklyn, to look at how the children performed—those who had breakfast and those who did not. For those who did not, Mr. Chairman, they performed very poorly around midmorning.

And, as I have said to your colleagues in the Congress, if either one of us in the morning were not to have the cup of coffee or the tea or the juice that we are accustomed to, our bodies would respond by letting us know that there is not enough adequate nutrition available for the body to function properly. So we as older adults feel it. I am sure you can understand the need for younger people to have a nutritious breakfast.

CONCLUDING REMARKS

I know that time is of the essence and you have heard a lot of testimony this morning, and so therefore I am not going to read all of my testimony to you, Mr. Chairman. You have a copy of it.

But, the late and great Congressman, Mickey Leland, who traveled from one corner of this country to the other corner of the world—when he went to Ethiopia and said that the children should be fed reminded me of a man who stood on the banks of the Sea of Galilee who took a child's lunch and fed a multitude. And, how ironic it is that both of these great people died for the cause of our children.

And I think that you and your colleagues, Mr. Chairman, have done a wonderful job, but I do believe that we need to look back. And when we talk about the administration proposal to increase the Federal subsidy by 20 cents, it ought to include the breakfast program as well so that our children can have the kind of food that they deserve.

You and I both have been around when there was leaded gas and unleaded gas. You can't put leaded gas in an unleaded tank today and have the car run right. So if the kids don't have any breakfast, then they can't function right.

IN CONCLUSION

Attached to my testimony, Mr. Chairman, in conclusion, is a statement with over 100 signatories including AFSCME—and I would like to introduce it—putting forth our stance on "Fighting Hunger in America," and I would just like to enumerate a few of them. They start with the Amalgamated Clothing and Textile Workers, the American Academy of Pediatrics, the American Association of Retired Persons, all the way down to the U.S. Catholic Conference, to the YMCA of the United States of America. So we don't stand alone in this area.

In conclusion, Mr. Chairman, this union has always fought—and I have been the president of local No. 372 for 22 years—for the needs of hungry children. And I say to you that as long as I have a breath in my body, I will advocate that we should protect God's children, the next leaders of tomorrow, because if we don't treat them right today, they have no reason to treat us right tomorrow.

Thank you, sir, very much, Mr. Chairman. I appreciate your hearing my testimony.

[Applause.]

[The prepared statement and attachments of Mr. Hughes follow:]

TSTIMONY OF CHARLES HUGHES, PRESIDENT OF LOCAL 372 AMERICAN FEDERATION OF STATE, COUNTY AND MUNICIPAL EMPLOYEES BEFORE THE SENATE COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY ON HUNGER IN AMERICA

FEBRUARY 27, 1990

Good morning Mr. Chairman and distinguished members of the Committee. My name is Charles Hughes. I am the Chairperson of the American Federation of State, County and Municipal Employees (AFSCME) School Advisory Committee, which represents 150,000 members.

I am also President of Local 372, Board of Education Employees, District Council 37, in New York City. Our members staff the nation's largest school feeding programs in terms of both student participation and employees. On an average day, our members serve about 700,000 breakfasts and lunches.

It is a privilege for me to testify before Committee. During the many years that I have advocated improved child nutrition programs, I have been moved by your sensitivity and commitment to our nation's children, and more particularly, by your steadfast support of child nutrition and the National School Lunch and Breakfast Programs. The improvements made last year as part of the Child Nutrition Reauthorization, particularly to the school breakfast program, were important steps in enhancing our children's ability to thrive in school and consequently improve the quality of their lives.

Unfortunately, Mr. Chairman, our work is far from complete. At a time when hunger still plagues our nation, President Bush is proposing a cut of $516.6 million in school lunch and child care for fiscal year 1991. The Administration's proposal to eliminate all general assistance support attributable to students from families in excess of 350 percent of the poverty line will threaten the ability of many schools to serve lunch and breakfast programs to any of its students. General assistance grant-in-aid underwrites the operating costs for a school's entire feeding program. If this funding stream is reduced, the loss will have to be made up from another income stream in order to maintain the program's financial stability. In most cases, states or local school boards are probably not in a position to cover the shortfall. Certainly this is the case in New York City. This leaves schools with only one alternative -- increase meal prices.

However, this is a Catch-22 situation. Experience has shown that participation rates drop by one percent for every one penny increase in price. If the Bush Administration proposal is adopted, history will repeat itself. Neither the School Lunch or the School Breakfast Program have recovered from the drastic budgetary attacks of the early 1980s when the school feeding programs were slashed by $1 billion. Two million children and two thousand schools dropped out of the lunch and breakfast programs, and total lunches served declined from twenty-six million to just over twenty-four million today.

If the participation rates for the school lunch program are unsatisfactorily low, the participation rates for the school breakfast program are shamefully inadequate. While it is not good enough to have the school lunch program serve only half of our nation's school children, 90 perent of the schools do offer the program. In comparison, however, less than one-third of our nation's schools even offer breakfast to their students. 3.7 million school breakfasts are served each day to less than 8 percent of our school children. I congratulate the Committee for recognizing the critical need to help schools establish breakfast programs. The $3 million entitlement for fiscal year 1990 and $5 million in the out years for start up funds, included in the 1989 Child Nutrition Reauthorization, to assist schools wanting to initiate a School Breakfast Program is a good beginning. However, much more needs to be done.

For far too many of our children, the school lunch and breakfast offer the only daily hope for hot, nutritious meals. The need to expand the breakfast program becomes even more urgent when we see that this program is utilized disproportionately by children from families with the lowest incomes. Nearly 90 percent of the children currently eating breakfast in school come from low-income households as compared to 48 percent of those eating school lunches. Department of Agriculture studies show that poor children depend on these meals for half of their daily nutrient intake.

While parents and educators have always known that hungry children do not learn, the interrelationship between good nutrition and a child's ability to achieve in the educational setting has been well documented only recently. According to a study released by the National Education Association and the Food Research and Action Center, entitled "The Relationship Between Nutrition and Learning," a child suffering from undernutrition is less physically active, less attentive and less able to concentrate. Accordingly, reading ability, verbal skills and motor skills suffer.

In another recent report, Dr. Alan Meyers of Boston City Hospital and Amy Sampson of the Tufts University School of Nutrition studied the effects on classroom performance of serving a school breakfast to over one thousand low-income students in Lawrence, Massachusetts when none had been provided previously. Their findings demonstrate that school breakfast participation is associated with significant improvements in academic performance, absenteeism, and tardiness among high-risk elementary school children living at or near poverty.

If President Bush wants to be the "Education President" and reverse the declining educational achievement levels of American students, the first thing he should do is increase the federal commitment to the National School Lunch and Breakfast Programs, not reduce it. Eating breakfast at school translates into significant improvement in achievement test scores. It translates into children moving ahead each June from grade to grade rather than being left back to repeat a year at an added cost to the school, the school district and to the child's future.

Between October and December 1987, AFSCME and the New York City Board of Education conducted a major campaign to expand the school breakfast program. This successful undertaking increased participation in the program by more than 25,000. We now serve over 143,000 breakfasts to New York City's school children everyday. But still our work is far from complete. While we have a higher ratio of breakfasts to lunches served than the national rate, it is not good enough. Our school breakfast program serves only one-fifth as many meals as our school lunch program.

We know that the need is there. At many of our schools which participate in the School Breakfast Program, children literally form "bread lines" each morning as they wait hungrily for their breakfasts. For many, it is the first meal they have had since the school lunch they ate the day before.

Mr. Chairman, this Committee could make a major improvement in the School Breakfast Program this year if it expanded President Bush's proposal to increase the federal subsidy for reduced price school lunches by twenty cents to include the School Breakfast Program as well. AFSCME supports the President's proposal as far as it goes, but, believes that the omission of the Breakfast Program discourages schools from offering breakfast and makes it more difficult to enroll students in the program where it is offered.

Mr. Chairman, I am very concerned about recent reports that the amount of bonus commodities which the Government distributes to school lunch programs has declined by $317 million since 1987. Changes in federal law in 1985 designed to reduce excess dairy surpluses and bring down Government costs have resulted in such deep cuts in farm output that much of the bonus foods going to schools and food banks has been eliminated. One way in which the schools dealt with the massive cuts of 1981 was to rely on the bonus commodities. Schools were forced to depend on these foods, not as extras, but as staples. Now as bonus commodities become scarce schools will have to make dramatic changes in their menus or raise prices. Again, as we know from past experience, any increase in the cost of reduced price or paid lunches will result in many students being priced out of the program. I urge this Committee to remedy this problem as you consider the 1990 Farm bill.

While strengthening the School Lunch and Breakfast Program is an essential part of a federal attack on hunger in America, assaults must be launched on other fronts simultaneously. Mr. Chairman, this Committee will have an important opportunity this year to strengthen another major line of defense against hunger in children when it reauthorizes the Food Stamp Program.

Fifty-one percent of all food stamp recipients are children and eighty-two percent of all food stamp benefits go to households with children. This makes the Food Stamp Program an important child nutrition program as well. The Food Research and Action Center (FRAC), of which I am a board member, estimates that nationally two to five million children are hungry and another four to five are at risk of hunger at any given time each month. This is based on preliminary data compiled from FRAC's Community Childhood Hunger Identification Project (CHIP). I urge you to take appropriate remedial action in this year's Food Stamp Reauthorization.

Mr. Chairman, AFSCME is one of over 100 national organizations which has signed a Statement of Principles, entitled: "Fighting Hunger in America." I would like to make this statement and its signatories part of the record of this hearing. I urge you to use it as guidance in your deliberations on the reauthorization of the Food Stamp Program.

Nationally, over 45 percent of low-income households pay more than 70 percent of their income for rent. In New York State, over 60 percent of households that receive both food stamps and AFDC have shelter costs above the cap. AFSCME supports the proposal to remove the current cap in the Food Stamp Program on the deduction for excess shelter costs so that these families are not forced to make a Solomonic choice each month. If these families use their scarce resources to pay the rent at the beginning of the month, they will not be able to purchase the food stamps they need by the end of the month and will go hungry. If they purchase enough food stamps, they will not be able to pay the rent and may be forced from their homes onto the streets.

AFSCME also supports the proposal to expand the availability of employment and training opportunities in the Food Stamp Program by providing states with increased flexibility to design their employment and training programs to improve the effectiveness and reflect varying state and local conditions.

Mr. Chairman, let me conclude by once again emphasizing how crucially important the School Lunch and Breakfast Programs and the Food Stamp Program are to our children's nutritional and educational needs. A hungry child who cannot learn will become an adult who lacks the skills to work productively over a lifetime. AFSCME stands ready to assist you in any way we can to make sure these programs are protected and improved. Mr. Chairman and members of the Committee, children are the key to our future and these child nutrition programs are the key to their nutritional and educational passage into that future.

Thank you for allowing me to appear before you this morning. I would be happy to answer any questions you have.

A Statement of Principles:

FIGHTING HUNGER IN AMERICA

Hunger haunts America. Millions of people across our land are regularly without enough food to sustain them. In recent years, more Americans have been standing in soup lines than at any time since the Great Depression. No region of our country has escaped this tragedy. It cuts across ideological and political lines, afflicting young and old, people of all races, and members of rural, urban, and suburban communities. Hunger reduces children's ability to learn, decreases productive energy, and threatens the competitiveness of America's workforce now and in the decades to come. Hunger in this land of plenty is morally unacceptable.

Hunger in America is both a national shame and a national challenge. Food security, the assured ability to obtain adequate food and nutrition through the same channels of distribution used by other Americans, should be the right of all Americans. The undersigned organizations believe that the Nation must address itself without delay to the fundamental goal that no child or adult in America should go hungry for lack of resources to obtain food. Although this problem requires sustained attention over a period of years and through many approaches, the Food Stamp Program has been shown to be our best and most consistent line of defense against hunger for children, the elderly, the disabled, and others among the neediest people in the United States. We therefore urge that the Food Stamp Program be strengthened in 1990 in the following ways:

1. **The Food Stamp Program should provide benefits adequate to ensure that families have enough to eat through the entire month.** The basic benefit level should be increased to reflect the current cost of obtaining a nutritionally adequate diet. The purchasing power of the minimum benefit, which is received by 30 percent of elderly participants, should not be allowed to decline further due to future inflation.

2. **The Food Stamp Program should respond to the needs of low-income families facing hunger by recognizing that rapidly rising shelter costs are depleting their family budgets.** Poor people should not be forced to choose between heating and eating. Forty-five percent of poor renters pay at least 70 percent of their household incomes for shelter alone. Money that is spent on housing should not be presumed to be available for food. Low-income people should not lose benefits because they double up in housing with relatives.

3. **The Food Stamp Program should encourage low-income people's efforts to achieve self-sufficiency.** It should not deny aid to otherwise eligible families because they have cars they are using to get to work, to look for employment, or to obtain medical care or other essential services. It should provide positive incentives for custodial parents to seek, and for absent parents to pay, child support. It should encourage low-income students to stay in school to improve their employability.

4. **The Food Stamp Program should work harmoniously with other programs to assist families at risk of hunger.** Efforts should be made to reduce program complexity and to coordinate the administration of the AFDC and Food Stamp Programs in ways that do not reduce the rights or benefits of families depending on the programs. "Quality control" and similar administrative systems should be designed to aid accountability without providing incentives to delay or deny benefits to eligible people and without removing essential resources from state and local human services budgets. The Food Stamp Program should be administered in a way that is sensitive to the needs of low-income people, with attention to the special problems of the homeless and the rural poor. Barriers to participation in the Food Stamp Program should be reduced to the extent possible.

3-6-90

National Group Endorsers of

A Statement of Principles: Fighting Hunger in America

Amalgatmated Clothing and Textile Workers
American Academy of Pediatrics
American Association of Retired Persons
American Association of School Administrators
American Baptist Churches USA
American College of Nurse-Midwives
American Dietetic Association
American Federation of Government Employees
American Federation of State, County & Municipal Employees
American Federation of Teachers
American Home Economic Association
American Jewish Committee
American Medical Student Association
American Public Health Association
American Public Welfare Association
American School Food Service Association
Americans for Democratic Action
Association for Public Justice
Association for Retarded Citizens of the United States
Association of Community Organizations for Reform Now
Bread for the World
Catholic Charities USA
Center for Science in the Public Interest
Center on Budget and Policy Priorities
Center for Law and Social Policy
Child Welfare League of America
Children's Defense Fund
Church of the Brethren
Church Women United
Church World Service/Disaster Response Office
Citizen Action
Coalition on Human Needs
Columban Fathers Justice and Peace Office
Commission on Religion in Apalachia
Communication Workers of America
Concerned Nutritionists for Better Child Care
Consumer Federation of America
Consumers Union
Episcopal Church, Washington Office
Evangelical Lutheran Church in America, Lutheran Office for Government Affairs
Families United For Senior Action
Federation of Southern Cooperatives/Land Assistance Fund
Food Research and Action Center
Friends Committee on National Legislation

Friends of VISTA
Full Employment Action Council
Gray Panthers Project Fund
Industrial Union Department, AFL-CIO
Interfaith Action for Economic Justice
International Union of Electrical Workers
Jesuit Social Ministries, National Office
League of Women Voters of the United States
Mennonite Central Committee, Washington Office
National Alliance to End Homelessness
National Anti-Hunger Coalition
National Assembly of Religious Women
National Association for Retarded Children
National Association of Community Action Agencies
National Association of Community Health Centers
National Association of Counties
National Association of Elementary School Principals
National Association of Homes for Children
National Association of Social Workers
National Association of State Agencies for Food Distribution
National Coalition for the Homeless
National Community Action Foundation
National Conference of State Legislatures
National Consumers League
National Council of Catholic Women
National Council of Churches
National Council of Churches, Working Group on Domestic Hunger and Poverty
National Council of Jewish Women
National Council of La Raza
National Council of La Raza, National Farmworker Center
National Council of Senior Citizens
National Council on Aging
National Education Association
National Farmers Organization
National Farmers Union
National IMPACT
National Jobs With Peace Campaign
National Legal Aid and Defender Association
National Low Income Housing Coalition
National Milk Producers Federation
National Organization for Women
National PTA
National Puerto Rican Coalition
National Save the Family Farm Coalition
National Urban League
National Welfare Rights Union
National Women's Political Caucus
OMB Watch
Presbyterian Church USA - Washington Office

Public Voice for Food and Health Policy
Religious Action Center/Union of American Hebrew Congregations
Results
Save the Children
Service Employees International Union
Society for Nutrition Education
U.S. Catholic Conference
U.S. Conference of Mayors
Unitarian Universalist Association - Washington Office
Unitarian Universalist Service Committee
United Auto Workers
United Church Board for Homeland Ministries
United Church of Christ, Office for Church In Society
United Food and Commercial Workers
United Methodist Church - Issue Development and Advocacy Division, General Board of Church and Society
United Methodist Church - Women's Division, General Board of Global Ministries
United Steelworkers of America
World Hunger Year
YWCA of the U.S.A.

The **Chairman**. Thank you, Mr. Hughes.

I might say that now that you have gassed up the committee, we will try to do the same with the rest of the Senate.

Let me reiterate what I have said all over this country and I have said over and over again in Vermont. We are speaking about feeding children; we are speaking about our commitment to the future of this country. I am very, very proud to be an American.

I came back from Nicaragua over the weekend. I saw efforts being made to bring about democracy. I sat in a little room where they were counting ballots in the living room of a home—a dirt floor, both major parties represented, working so hard into the late, hot night. There was very little electricity in there, but they were counting and counting and counting, and they were missing one ballot of the 550 they counted. And they went on and on and on for hours and they went over and over it again until they found that one ballot. It would not have affected the outcome of the election, but they were so determined it was going to be right.

And I was so proud to be there as one of the observers. I worked with President Carter and others who had put together this observation team, and I watched all over that country a working democratic process, and supporters of both parties, whether it was the Sandinistas, the Uno, or whatever.

As I watched people standing in 90-degree heat for hours to vote and turn out 85, 90 percent—in some places, they had walked for half a day to get to the voting booths to have democracy, and it is something we take for granted here.

I talked to them about what they wanted to do, and over and over again they came down to hoping that whatever they had, it could improve the lot of their people, eliminate hunger, bring about education.

Every one of these things are things that we take for granted here. We take for granted our democracy and ability to vote and change a government, but only 50 percent of our people go to the polls. We take for granted that in the United States you go hungry only by choice, and yet we know, all of us know, that is not so.

You can go to the inner city, you can go to rural America, you can go everywhere else and find that unlike those of us who actually vote on these programs and develop them—if we go hungry, we do it by choice; these people have no choice.

And we talk about the education system in the United States, and we can say it is second to none. Well, that is not so. We have fallen behind a lot of the rest of the world, and one of the problems is how do you teach a hungry child?

There is enough competition for that child's mind today with everything from drugs on through. But, to have to compete for that child's mind with a hungry stomach—what kind of a nation are we to allow that? I mean, this is something that is so within our power to stop.

We will have a difficult time stopping the drug problem; we may have a difficult time stopping crime. We are not doing enough in those areas, but one thing we can do today as a nation is to know that at least we do not compete with hunger for that child's mind and development. As a nation, can we ask for anything less? What kind of a people are we if that has to even be a question?

So I thank you all for your testimony. Let me tell you, you preach to the converted here. Now, we will work at converting my fellow Senators. Thank you. We stand in recess.

[Applause.]

[Whereupon, at 12:08 p.m., the committee recessed, to reconvene at 2:05 p.m., Wednesday, April 18, 1990, in room SR-332, Russell Senate Office Building.]

[Material submitted for inclusion in the record follows:]

APPENDIX

PREPARED STATEMENT OF FOOD FOR PEACE, WASHINGTON, DC

To: Senator Leahy and members of the Senate Agriculture Committee.

The testimony presented to Senate and House Agriculture Subcommittees over the past 12 months amply documents the existence of hunger and malnutrition in our Nation, and in many points of need around the globe, on a scale constituting a state of emergency. In the last 3 years, total world grain production has been less than total average annual world grain consumption, resulting in a massive drawdown of stocks. Meat, dairy and other animal protein supplies are likewise way below needs. This is manifest in the United States and around the world.

For example, the ending in 1989, of USDA provision of "bonus" commodity milk powder and cheese to school districts, has resulted in millions of schoolchildren not getting their midday meal. The United States has at the same time reneged on meeting foreign trade contracts, such as supplying 20 million pounds of precontracted milk powder to Mexico in December 1989. The scarce milk powder supplies were instead diverted to Nestles and other food processors who claimed to have priority.

In Africa, malnutrition and starvation exist on the scale of genocide. Nevertheless, the United States has cut back its volume of food aid pledges to Africa and to the world food relief program, and has raided the U.S. National Wheat Security reserve with no provision to replenish it.

Yet neither the administration nor the opposition in Congress has to date proposed the kind of sweeping emergency measures needed for expanding food production to reverse the deprivation, and to restore farm productivity once more. Agriculture Secretary Clayton Yeutter has tried to "wave a magic wand" to order more food output. Since the 1989 grain harvests he lowered his earlier orders for wheat land set-aside; in January, he lowered his orders for rice land set-aside. But the USDA Farmers Home Administration and other agencies are still forcing farmers out of business at a crisis rate, and ignoring the financial crisis of those remaining in farming.

The international Food for Peace effort, founded in September 1988 at the initiation of Lyndon LaRouche, calls for concerted emergency food production measures modeled on the example of the World War II War Mobilization Board. The recommended measures are indicated at the end of this testimony. We also submit to the committee our 23 page study, "USDA Land Set-Aside Is Genocide." [7]

Instead of pursuing this direction of winning a war on hunger, the attention of the public and lawmakers alike is being diverted from the crisis, and focused instead on a list of alternative concerns such as food "safety" (not volume and availability), environmental "protection" (not enhancement through modern technology), and "free" trade (not expanded food output and respect for national sovereignty over food and farm policies).

For Congress to entertain these so-called ecology issues makes a mockery of the needless deaths of millions of people, while hundreds of thousands of farmers are being driven out of farming. The ecology lobby that has successfully foisted their issues on Congress has the objective of drastic depopulation, in other words, genocide. The major creators and financiers of the ecology movement against agriculture and a sound food policy are the Rockefeller Brothers Fund, the Mellon funds, the Kellogg Foundation, the Ford Foundation, and others whose stated goal is vast population control.

In addition to the simple moral precept that every human being has a right to eat, there is the strategic danger of war-or-peace over the issue of scarce food. Chancellor Helmut Kohl has offered the Soviet Union food assistance in exchange for Soviet agreement not to interfere in West German economic development activities in East Germany. The United States should join this "Food for Peace" initiative, which can be broadened to include Poland and all the nations of Eastern Europe. This proposal was first made in Berlin, in October 1988 by Lyndon LaRouche, who was then made a political prisoner after a Justice Department railroad trial.

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[7] This study is retained in the committee file.

Emergency Measures Required

The following are guidelines for the emergency food and farm measures required to end the food scarcity crisis. These specific measures are coherent with financial and economic measures that should be taken as part of a declaration of a national state of economic emergency, in view of the unfolding financial crash and economic crisis.

1. Order the USDA to resume fulfilling its responsibility for the nutritional fitness of all citizens. Emergency food must be marshaled and made available wherever needed—school lunch programs, Women, Infants and Children Program, the special needs on Indian reservations, special institutions, and food banks and relief projects. No American is to go hungry.
2. New Federal food reserve policies are to be set and fulfilled, based on national food security logistics recommendations for keeping at least 9 months to 2 years worth of vital food staples in store.
3. Order a stay on farm foreclosures, and freeze and reschedule farm debt—based on the initiation of parity-price based farm operations.
4. Institute parity pricing for farm commodities, and initiate low-interest loans through the Treasury Department, and farm credit channels, to facilitate increased output.
5. Cancel the anti-American policy of "free trade," and commit to a policy of mutually beneficial food trade treaties based on respect for the sovereign right of a nation to set its own food and farm policies.
6. Institute antitrust actions to dismantle the food cartel of companies that now control who eats, and who does not. Target companies include Cargill, ADM (Archer Daniels Midland), IBP, Nestles, and others.
7. Enact the "sunset" measures needed to close down the Environmental Protection Agency, and related offices in other branches of government; and instead, mobilize to offer farmers the needed inputs—chemicals, mechanization, and electromagnetic technologies, to vastly expand output in the ways that EPA regulations have been used to prevent.
8. Phase out the Conservation Reserve Program and related programs designed to reduce food output and remove the farmer's right to develop the productivity of his land.

Prepared Statement of American Association of Retired Persons (AARP), Washington, DC

Introduction

The American Association of Retired Persons appreciates this opportunity to express our views regarding the reauthorization of the Food Stamp Act. The Food Stamp Program is the primary form of Federal food assistance for low-income older persons. Over twenty (20.5) percent of all food stamp households include at least one individual age 60 or over, and nearly 1.6 million older individuals receive food stamp benefits.

AARP appreciates the improvements that Congress enacted recently as part of the Hunger Relief Act of 1988. These amendments made modest increases in benefit levels and restored Federal funding for outreach efforts. Nevertheless, AARP is concerned that benefit levels continue to be too low to ensure an adequate diet for the poor, and too few elderly persons receive the benefits for which they are eligible.

In summary, AARP recommends that Congress:

- **Adopt a standard medical expense deduction;**
- **Require mail issuance of coupons to elderly and disabled households who otherwise face a hardship in receiving benefits;**
- **Strengthen efforts to simplify application forms;**
- **Consider improvements in the minimum benefit; and**
- **Address the need for improved outreach efforts.**

Importance of Food Stamp Benefits for Older Persons

Food stamp benefits are an important component of the income maintenance system for low-income persons. While children currently have the highest levels of poverty in this country, persons 65 and over have the highest poverty rate among adults over the age of 21. For older women and minorities, poverty remains extremely high, as illustrated in the table below.

1988 POVERTY RATES

	Total	White	Black	Hispanic
Men 65+	8.0	6.3	23.7	18.0
Women 65+	14.9	12.6	38.0	25.9
Total	12.0	10.0	32.2	22.4

Source: U.S. Census.

Furthermore, in 1987, 80 percent of elderly, rural, black women who did not reside with other family members were poor. Persons with low incomes are less able to purchase adequate food to maintain a healthy diet. Because diet is important in the maintenance of good health, it is imperative that persons with low incomes have access to the Food Stamp Program.

Characteristics of Older Participants

As of 1987 (the most recent date for which reliable figures are available):

- Eighty-nine percent of all older food stamp participants lived alone or with one other person (usually elderly as well);
- Fifty-eight percent of older food stamp households consisted of a single elderly woman;
- Average monthly gross income for elderly individuals receiving food stamps was $280; for households, $420;
- Food stamp households with elderly members had an average of $182 in countable assets;
- Sixty-three percent of older food stamp households had $500 or less in assets;
- Fewer than 14 percent of older food stamp households had $1,000 or more in assets;
- Few households with elderly members had earned income (5.8 percent); and
- Twelve percent of households with elderly members claimed a medical expense deduction with an average amount of $79 a month.

(Source: USDA, "Characteristics of Food Stamp Households, Summer 1987," January 1990.)

Benefit Levels of Households With Elderly Members

In 1987, the average monthly benefit for older individuals was $32 per person; for households with an older person, the average benefit was $48. Twenty-nine percent of older households in the Food Stamp Program received the minimum food stamp benefit of $10 a month. The minimum was established at $10 in 1977 and has never been increased.

In 1977, the average monthly food stamp benefit, per person, was $24.70. This meant the minimum benefit constituted 41 percent of the average benefit. By 1988, the average benefit, per person, was estimated to be $49.80. In comparison, the relative value of the minimum benefit has shrunk to just 20 percent of the average. If the $10 minimum benefit had been indexed for inflation, its value in 1988 would have been nearly $20.

For many older persons, especially the rural poor, the cost of access to food stamps can outweigh the minimum $10 benefit. For example, the nearest food stamp office may be many miles away in rural areas. Those who cannot drive this distance often must pay someone else $5 or $10 to pick up their food stamp coupons. The value of benefits, even the **minimum** benefit, should not be outweighed by the cost of access.

Participation Rates Among Older Persons

As is true of other public benefit programs, participation by older persons in the Food Stamp Program is particularly low. According to a 1988 study by the Congressional Budget Office, only 34 to 44 percent of eligible households containing an elderly member receive food stamps.

A 1984 study by USDA and Mathematica Policy Research, "Participation Among the Elderly in the Food Stamp Program," found that participation was much higher among eligible households receiving Supplemental Security Income (SSI) (74 to 80 percent) than among non-SSI households (24 to 37 percent). In analyzing reasons for nonparticipation, a key finding was that people lacked awareness of the program and their likely eligibility. The authors found that more than two-thirds of eligible nonparticipants either didn't think or didn't know they were eligible. Only 14 percent indicated that they were too proud to apply or would be embarrassed if others in the community knew they were participating.

There also was some evidence that distance from the food stamp office was positively related to nonparticipation. Thirty-one percent of nonparticipants indicated that getting to the food stamp office was a "big problem." Twenty-seven percent of nonparticipants lived more than 9 miles from the nearest office.

In addition, low benefit levels were found to be related to participation. For single-person households, 39 percent of nonparticipants, compared to 25 percent of participants were eligible for only the $10 minimum benefit. For multiperson households, 36 percent of nonparticipants compared to 11 percent of participants qualified for only the minimum.

The U.S. General Accounting Office examined reasons for nonparticipation in the Food Stamp Program in 1988. It found that half the eligible nonparticipants did not think they were eligible for the program, many because they thought their income or assets were too high. But even among those nonparticipants who thought they were eligible for the program, two-thirds did not try to apply. Almost one-third of these thought they did not need the benefits, but 27 percent cited concern about likely administrative "hassles" as their reason for not applying.

One such administrative "hassle" is the use of the medical expense deduction. Medical costs of older and disabled households are higher than for other households, which is why this deduction was established for these populations. Administrative complexity prevents many eligible households from availing themselves of this option. As a result, these households may not receive the full food stamp benefit for which they are eligible.

Between 1986 and 1987, use of the medical expense deduction by older households declined by nearly 20 percent—from 15 percent of older households to just 12 percent. Provisions of the Hunger Relief Act of 1988 began to simplify use of this deduction by allowing the averaging of recurring medical expenses. Although this improvement is a positive step, additional reforms could facilitate greater use of this deduction by eligible households.

Reforms in this and several other areas could make it easier for older persons to participate in the Food Stamp Program.

RECOMMENDATIONS

Medical Expense Deduction.—AARP supports adoption of a standard medical expense deduction that facilitates the use of the medical expense deduction by eligible households. The standard medical expense deduction should function similarly to the current standard utility deduction. Mechanisms would need to be developed to determine the typical medical expenses of low-income older and disabled households in each State.

As with the standard utility deduction, persons incurring medical expenses could have the option of using the standard deduction or, if their documented actual expenses are higher than the standard, they could continue to deduct their actual costs.

Mail Issuance.—Although current regulations indicate that elderly and disabled persons should be given assistance in receiving their food stamp coupons, States are not currently required to provide beneficiaries with the option of mail issuance. Lack of mail issuance can cause particular hardship in rural areas where older persons may lack the transportation to travel each month to receive their food stamps, especially if the benefit level is only the minimum. Failure to provide mail issuance can pose a significant barrier to participation and should be remedied. States should be required to provide the option of mail issuance of coupons to households that otherwise face a hardship in receiving their benefits.

AARP recognizes that concerns about fraud and theft constitute the primary objections to mail issuance. Beneficiaries who prefer not to receive mail issuance should be allowed to decline this option. Annual in-person recertifications should be adequate to prevent fraudulent receipt of benefits, however.

Application Forms.—Application forms must be simplified and made more understandable so that the application form itself does not become a barrier to participation. In most States, the food stamp application form is now unified with the application form for AFDC. While this may serve a useful purpose for many families, it can cause unnecessary confusion for older persons applying for food stamps. Efforts should be made to ensure that the food stamp application form is easily understandable.

Minimum Benefit.—Congress should consider improvements in the minimum food stamp benefit. Sixty-seven percent of those who receive the minimum benefit are elderly.

A higher minimum benefit could make program participation more worthwhile for older persons and improve their nutritional status. Alternatively, Congress should consider providing a larger minimum benefit less frequently. For example, a $45 minimum provided quarterly could replace the current $10 monthly benefit. This change would help prevent the situation in which the cost of getting to the food stamp office exceeds the benefit amount.

OUTREACH

More outreach is needed to inform persons of their possible eligibility for the program and to assist them in completing application forms. This is a particularly difficult but necessary task in rural areas in which older persons are more likely to be socially and physically isolated and to lack access to information about programs and services.

Many older persons are unaware that they can apply for food stamps in the Social Security office which, in some cases, may be more convenient and less stigmatizing than using the welfare office. Although the Food Stamp Act clearly requires Social Security offices to provide application information and assistance, these provisions of law are not being adequately enforced.

AARP'S OUTREACH EFFORTS

For the past 2 years, AARP (funded in part by the Commonwealth Fund Commission on Elderly People Living Alone) has been involved in outreach projects to increase participation in the SSI program. This year, these outreach efforts have been expanded to include food stamps, Medicaid and energy assistance.

Statistics provided by the Social Security Administration (SSA) show that, in the three cities participating in 1988, overall SSI applications and awards increased dramatically. The application rate increased by 97 percent and awards increased by 58 percent as compared to the average of the 3 previous years.

Based on the success of the 1988 pilot project, AARP expanded the outreach program to 10 additional communities in 1989. Preliminary results are encouraging. During the months of May, June and July 1989, applications in the first five sites increased by 38 percent and awards increased by 37 percent.

FEATURES OF AARP'S OUTREACH

Based on our experience so far, we believe several features are necessary if outreach efforts are to be successful. These include: working with coalitions, use of the media, training of social service providers, conducting community education presentations, and one-to-one counseling of potential applicants. Special attention also must be paid to informing those not reached through traditional methods of outreach. For example, members of minority groups may need to be reached in different locations, such as black churches, or through announcements in languages other than English. In our experience, outreach also was more successful with cooperation from the local SSA office.

While AARP's outreach has been successful, those involved in our outreach efforts confirm what most people instinctively think—a national coordinated effort by the Social Security Administration and implemented at the local level is needed in order to reach those throughout our Nation who are eligible for, but not participating in SSI.

We believe this experience is relevant to future efforts to conduct outreach to potentially eligible food stamp participants. As AARP found through the SSI outreach projects, local participation and cooperation from the agencies that administer the programs are important components of a successful effort. But local communities and organizations should not be expected to fill the current outreach void, nor can they reach the large number of potentially eligible participants nationwide who currently subsist on low incomes.

Leadership is needed at the Federal level for outreach efforts if significant improvements in participation are to be accomplished. Initiatives could take a variety of forms, including enhanced Federal monetary support (e.g. an increase in the Federal match for outreach); provision of training and technical assistance to the States; or development and promotion of model outreach programs.

CONCLUSION

The Food Stamp Program plays a vital role in helping low-income households purchase the foods they need to maintain a healthy diet. Low participation among older persons is a serious problem that needs to be addressed. Improvements in benefits, outreach and administrative procedures will help ensure that older persons have better access to this important program. AARP would be happy to provide additional information about our experience with public benefit outreach projects, and we stand ready to assist the Congress in favorably resolving existing problems in the Food Stamp Program.

PREPARATION FOR THE 1990 FARM BILL

Nutrition

WEDNESDAY, APRIL 18, 1990

U.S. Senate,
Committee on Agriculture, Nutrition, and Forestry,
Washington, DC.

The committee met, pursuant to notice, at 2:05 p.m., in room SR-332, Russell Senate Office Building, Hon. Patrick J. Leahy (chairman of the committee) presiding.

Present or submitting a statement: Senators Leahy, Lugar, and Bond.

STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT

The Chairman. We are going to be marking up the nutrition title in full committee in early May. The staff on both sides of the aisle are working to put together a proposal by the end of next week. The proposal should conform to the spending limits, as I understand it, set by Senators Sasser and Domenici in their bill.

I think the nutrition title is going to be one of the most important parts of the bill. We always hear about the farm bill, and corn prices and wheat prices and dairy prices and soybeans, cotton, peanuts, everything else, but the actual nutrition package is something that affects every single person in this country.

So much of what we do in the nutrition part of the bill will impact upon what the next generation of Americans will be like because of how we feed children, with programs like School Breakfast and School Lunch and including how we feed children before they are born with such programs as WIC. It is actually one of the most important things that we can do as a committee this year, and so I am glad we are having this hearing.

I would yield to Senator Lugar.

STATEMENT OF HON. RICHARD G. LUGAR, A U.S. SENATOR FROM INDIANA

Senator Lugar. Thank you very much, Mr. Chairman. I applaud your calling the hearing and your specific personal leadership in the area of nutrition. As you pointed out, in terms of both dollar sums as well as the impact on human beings, this particular portion of our work may have the most importance immediately and certainly in a lasting sense in our country, so I look forward to hearing the witnesses and participating with you on a strong nutrition plank in the farm bill.

The **Chairman**. Thank you. This hearing is a continuation of the Nutrition hearing we had on February 27. We will have the first witness, who is going to present the views of the Department. We have a good working relationship with the Department on nutrition issues. I have invited the Assistant Secretary for Food and Consumer Services, Catherine Bertini, to testify this morning.

Secretary Bertini, your full statement will be placed in the record, and you might summarize it so we will have time for questions. Thank you for being here today.

STATEMENT OF CATHERINE A. BERTINI, ASSISTANT SECRETARY, FOOD AND CONSUMER SERVICES, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC

INTRODUCTION

Ms. **Bertini**. Thank you, Mr. Chairman. I appreciate the opportunity to come to meet with you and to present the administration's position on these issues that are so important.

We share with you, Mr. Chairman, some of the comments that you have often made in the past about the issues of hunger in America and the concerns that we all have, that we are serving those who are hungry and poor in this country. We believe, as I know you do, that these are issues that are not partisan issues. They are issues on which we all must work together, and we do want to take the opportunity to commend your staff and the minority staff for the fine work that we are all doing together as we work on these important issues.

We are certainly all committed to serving the poor and serving the hungry in America, and to do so within the confines of the dollars available. I think sometimes we have slightly different interpretations of how it is best to serve those folks and how much money is available. However, each of us is operating, I think, in the highest professional manner in terms of trying to come up with appropriate conclusions.

Our goal at USDA has been to develop proposals to make the food assistance programs that we administer more responsive to the 35 million Americans we serve and more flexible from an administrative perspective, and of course to do so within the current existing budgetary framework and the dollars available.

WE ARE PROPOSING SEVERAL THINGS

Specifically, we are proposing several things:

TEFAP PROGRAM

One, reauthorization of the TEFAP Program at similar levels as currently exist, $120 million for program costs and $50 million for administration.

FOOD STAMP PROGRAM

Second, to improve the program integrity of the Food Stamp Program, so that we can assure that funds allocated for the poor actually get to them in the form of food. As a result, we are proposing first of all the Electronic Benefit Transfer Program being available to States after April of 1992 as an alternative delivery system that they could use; second, periodic recertification of retail stores; third, some limits on the types of stores that may be eligible to participate in the program; and also tougher penalties on people who illegally use food stamps, particularly on the institutions that do it.

CHILD SUPPORT ENFORCEMENT

Third, on improved child support enforcement, we are encouraging you to consider making cooperation with child support agencies a condition of eligibility for food stamp custodial parents who are not already AFDC parents. This is something that is a concept on which everyone agrees, the specifics of which some of us disagree on, in the overall community of those concerned.

Everyone certainly agrees that both parents should be responsible for their children and that the institutions ought to encourage that. Where we sometimes disagree is on exactly how to carry this out. Our proposal stands. However, we were directed by the House Committee to meet with interested parties, with States, with advocacy groups and others, in order to try to talk about this proposal and see what we might come to an agreement about that everyone could be comfortable with, and we are continuing to work on that process.

IMPROVING OUR ASSISTANCE TO THE HOMELESS

Another recommendation that we have is improving our assistance to the homeless, and we have several recommendations in that regard. One is to provide some grants to nonprofit agencies to test some innovative outreach proposals; another, to allow certain restaurants the opportunity to accept food stamps to serve the homeless, much like several do to serve the elderly.

AUTHORIZATION FOR APPROPRIATIONS

A fifth proposal is regarding authorization for appropriations. We propose that you change the language from a fixed, specific amount authorized and appropriated to language that says, "such sums as may be necessary to fully fund the Food Stamp Program." We believe this would help ensure that the funds are available to all people in need, and help States budget accordingly.

REAUTHORIZE THE COMMODITY SUPPLEMENTAL FOOD PROGRAM

A sixth proposal is to reauthorize the Commodity Supplemental Food Program. We are proposing a couple of changes in addition to reauthorization.

One is the manner in which we administer the funds. Currently we contribute, in addition to the CSFP food, approximately 15 percent of the appropriation for administration plus 15 percent of the bonus commodities that are distributed. Because the bonus commodities change from year to year and we don't have any way of knowing exactly how much they will be, this means that the CSFP operators sometimes don't have a fixed amount that they can count on.

Therefore, we are recommending a straight 20 percent of appropriations, which is approximately the same amount that they have been counting on in the past. We also recommend repealing the case load conversion provisions, so that we can ensure that we are doing our best to serve all of the needy women, infants and children as a first priority.

REAUTHORIZING SEVERAL OTHER PROGRAMS

Finally, we are proposing reauthorizing several other programs, more specifically the food distribution program on Indian reservations. We are proposing reauthorizing that, as well.

CONCLUSION

In closing, Mr. Chairman and members of the committee, I want to assure you that this administration believes it is imperative that Congress reauthorize our domestic food assistance programs. We know in addition to reauthorization that you are considering several of our other proposals, and we urge you to enact the modifications that we suggest.

I would be glad to answer questions, and of course you have my prepared remarks for the record.

[The prepared statement of Ms. Bertini follows:]

TESTIMONY OF
CATHERINE A. BERTINI
ASSISTANT SECRETARY, FOOD AND CONSUMER SERVICES
U.S. DEPARTMENT OF AGRICULTURE
BEFORE THE
SENATE COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY
APRIL 18, 1990

Good afternoon. Mr. Chairman, Members of the Committee, I am Catherine Bertini, Assistant Secretary for Food and Consumer Services, U.S. Department of Agriculture. It is my pleasure to be here today to present to you the recommendations for the food assistance programs to be contained in the Farm Bill.

We have been working hard at the Food and Nutrition Service to develop food assistance proposals that we believe will best serve our nation's low-income population. For the past several weeks, Food and Nutrition Service Administrator Betty Jo Nelsen and I have met with many of you to begin outlining some of the FNS proposals. We follow Secretary Yeutter's lead in pledging to work with you in an expeditious manner to have the 1990 Farm Bill on the President's desk as soon as possible.

In introducing the Department's Farm Bill recommendations in February, Secretary Yeutter praised the 1985 Farm Bill as putting

American agriculture on the "right course." As the Secretary has observed, our objective now should be to improve upon this base, to make it "work better--more responsively, more flexibly...."

So, from the start our goal has been to develop proposals to make the food assistance programs we administer both more responsive to the 35 million Americans we serve and more flexible to administer.

USDA has been known as the "People's Department" for 127 years, and I am proud that the programs administered by our agency have become such a vital component of USDA's commitment to the nutritional well-being of the American people. As we begin the last decade of this century, spending on food and nutrition programs accounts for almost half of the Department's total expenditures.

Today, I would like to bring into focus some of the initiatives we are proposing as modifications to the 1985 Farm Bill.
Let me begin my discussion of our specific proposals with the Temporary Emergency Food Assistance Program, or TEFAP.

TEMPORARY EMERGENCY FOOD ASSISTANCE PROGRAM (TEFAP)

REAUTHORIZATION

USDA instituted household distribution of commodities in 1981 after accumulating large inventories of surplus dairy products.

over 5.5 billion pounds of commodities (valued at over $5.5 billion) have been distributed since the program began, and at its peak in 1984, TEFAP provided over $1 billion in commodities to 15 million participants. Because the Department distributed over 5.5 billion pounds of surplus commodities (a majority in dairy items) and because surplus production of dairy products was reduced by the dairy price support and dairy termination program provisions of the 1985 Farm Bill, Commodity Credit Corporation (CCC) inventories of dairy products were sharply reduced. As a result, cheese and non-fat dry milk donations were discontinued during Fiscal Year 1988.

In the Hunger Prevention Act of 1988, as an interim measure, Congress authorized purchases of additional commodities for two years to avoid an abrupt cutoff of commodity distribution. The 1988 law required the Secretary to spend $120 million in fiscal years 1989 and 1990 to purchase, process, and distribute commodities. Over 141 million pounds of commodities such as peanut butter, canned pork, beans, egg mix, and raisins were purchased for TEFAP distribution in 1989. Our purchases for this fiscal year are similar in amount and in type of commodities.

USDA commodities distributed through TEFAP complement the distribution of private food donations. The relatively stable supply of USDA foods given these private organizations is a good source of extra items to go along with the varying items they receive from time to time from private sources.

The Department is requesting reauthorization of the distribution of surplus commodities through TEFAP and funding for commodity purchases ($120 million annually). Depending on market conditions, available supplies, the appropriateness for use in TEFAP, and the requirements of the Hunger Prevention Act, USDA will attempt to target commodities that are in surplus.

ADMINISTRATIVE FUNDING FOR TEFAP

Since 1983, $50 million has been authorized annually for State and local administrative costs of distribution. The Hunger Prevention Act of 1988 also permits TEFAP funds to be used for State and local agency costs of distributing non-TEFAP commodities.

Federal administrative funding ensures the stability of the local organizations that distribute TEFAP commodities. Forty percent of administrative funds must be passed on to local agencies.

The Department supports continuation of TEFAP administrative funding at the $50 million level.

TEFAP DISPLACEMENT REPORT

FNS has been required to report to Congress on the extent and magnitude of displacement of commercial sales due to commodity donations through TEFAP. We recommend repealing the requirement to produce an annual displacement report on the grounds that it no longer provides new or useful information. However, the Secretary would still be required to consider potential commercial market effects when setting distribution levels for commodities through TEFAP.

FOOD STAMP PROGRAM

The Food Stamp Program is the foundation of our national effort to provide nutrition assistance to all needy low-income Americans. All of us want to make certain that the billions of dollars we allocate and spend each year on the Food Stamp Program are used to buy nutritious food that reaches hungry people. Toward that goal, we propose the following:

PROGRAM INTEGRITY

Food stamps are intended to help low-income Americans buy nutritious food. By law, food stamps can only be used to buy food in authorized retail food stores. However, in practice, food stamps are sometimes diverted to other uses through sale or barter. As a result, family members who should receive food through the program do not. USDA's proposal would strengthen program accountability because the needy are best served by strong programs administered with integrity.

Rapidly developing possibilities in the area of electronic transfers present significant opportunities to better safeguard food stamp benefits so that dollars are spent on food. The Department will continue to vigorously pursue the testing of **Electronic Benefit Transfer (EBT) systems** which would eliminate paper food coupons and cut down on fraud. In addition, the Administration proposes to make EBT an operational alternative, thereby allowing States to undertake their own cost-effective EBT projects. This change would be effective beginning in April 1992.

We also propose new and tougher **penalties** against retailers and other persons who traffic in coupons, solicit the sale of coupons, or accept illegally obtained coupons, especially for drugs or firearms, as well as mandatory minimum penalties for those convicted of the most serious violations of the Food Stamp Program. A strike team of government investigators will be established to aggressively seek out this kind of major criminal activity. At the same time, we will implement these provisions to safeguard legitimate uses of food stamps by recipients and retailers.

IMPROVED CHILD SUPPORT ENFORCEMENT

President Bush has made children a priority for this Administration. Efforts to strengthen child support enforcement are especially important, since the failure of absent parents to provide support often leaves their children in poverty. While programs such as Aid to Families with Dependent Children (AFDC), food stamps, and Medicaid are intended to help families purchase the necessities, they should not be a substitute for the financial support children deserve from their parents.

The Food Stamp Program, unlike AFDC and Medicaid, does not require households to cooperate with State and local child support enforcement officials. We want to encourage adult food stamp recipients to take full advantage of the child support enforcement program by making services available without charge. We propose making such cooperation a condition of food stamp eligibility for custodial parents. Full implementation will increase family income and decrease the need for food stamps.

IMPROVED ASSISTANCE TO THE HOMELESS

Most homeless people are eligible for food stamps, yet we know that few of them participate in this program. The Department proposes to offer non-profit groups special grants to test innovative ways to reach out to homeless people with information, assistance, and other outreach services so that we can determine how best to meet the needs of this population.

In addition, we would extend the existing **"prepared meals provision"** that enables homeless families and individuals to pay for meals at authorized shelters and soup kitchens with food stamps, and propose that **restaurants** willing to offer reduced prices on low-cost meals to homeless customers be authorized to accept food stamps as well.

In FY 1991, the Department would continue support for the emergency food network by purchasing and distributing $32 million in commodities for soup kitchens and food banks that serve the homeless.

EXPANDED DEMONSTRATION WAIVER AUTHORITY

We support a major effort to improve food program administration by increasing **coordination among programs** that serve low-income Americans. We are working through the White House Low-Income Opportunity Board and with other Federal agencies to achieve this.

Some States have come forward with innovations for reforming the welfare system but have found they cannot be as creative as they would like to be because the food stamp waiver authority is not as broad as in other programs. Expanded waiver authority would result in more meaningful tests of innovative welfare reform projects by allowing for increased State flexibility and increased conformance with the Aid to Families with Dependent Children Program.

FOOD STAMP ADMINISTRATION: CITIZENSHIP DECLARATION

Under current law, adult members of a household applying for food stamps must attest, in writing, to their own and to their children's citizenship status. We propose a change requiring that only the head of household need sign a statement vouching for the citizenship status of all household members. This change will ease the application process for applicants and caseworkers.

AUTHORIZATION FOR APPROPRIATIONS FOR THE FOOD STAMP PROGRAM

From Fiscal Year 1972 until Fiscal Year 1977, the Food Stamp Program had an open-ended authorization for appropriations. The 1977 Act reverted to an annual, fixed authorization level and required the Secretary to suspend or reduce benefits if necessary to keep program costs within that limit. These provisions threaten to interrupt the flow of benefits to recipients and place unnecessary burdens on Federal and State program managers.

Accordingly, the Department proposes an authorization "for such sums as may be necessary" to fully fund the Food Stamp Program and funding that is authorized on a calendar year basis. A more flexible authorization would eliminate the need for unneces-sary procedural steps by the States, and streamline the appropriations process in the event that unanticipated changes in law, participation, or food prices cause program costs to rise, thereby putting participants at risk of reduced benefits.

EMPLOYMENT AND TRAINING

The Employment and Training (E&T) program requirement for food stamp participants was implemented in April 1987. The basic E&T

operational grant to all States totals $75 million and is 100 percent federally funded. States spending beyond the basic grant are eligible for 50-50 Federal matching.

We propose to fully fund the basic E&T grant at $75 million, and cap the Federal share of operational costs at $12.50 per E&T participant per month. Limiting the Federal match would increase control over expenditures and ensure that States do not use this funding to supplant State efforts.

THE COMMODITY SUPPLEMENTAL FOOD PROGRAM (CSFP)

REAUTHORIZATION

The Commodity Supplemental Food Program was instituted in 1969 to provide supplemental foods to needy women, infants and children. During FY 1990, the CSFP will provide supplemental foods to an average of 165,000 women, infants and children and 107,000 elderly per month. The program is operated by 20 State agencies, 12 of which provide services to the elderly. Six different food packages provide a variety of Federally purchased commodities to program participants.

The Department supports reauthorization of CSFP.

CSFP ADMINISTRATIVE FUNDING

For the first decade of CSFP operation, Federal support for State CSFP administrative expense was set at 15 percent of the amount appropriated. In the early 1980's, this was increased such that currently States receive base administrative funds (15 percent of the total appropriation) and reimbursement administrative funds (15 percent of the value of commodities distributed that are provided at no cost to the program). In fiscal years 1988 and 1989, administrative funds (base and reimbursement) represented 20.6 percent and 21.2 percent of the appropriations.

Reimbursement administrative funding, which was stable during recent periods of extensive dairy surpluses, is subject to the availability of donated commodities, and as a consequence is declining. In addition, unstable supplies present difficulty for program operators in planning their administrative budgets early in the year. Our proposal would give greater certainty to State agencies for these costs.

Therefore, the Administration is proposing that CSFP administrative funding not exceed 20 percent of the appropriations, and that reimbursement funding be discontinued.

CSFP CASELOAD CONVERSION

Under current law, if a State agency has been assigned more caseload than it can use to serve women, infants and children, it can convert excess caseload to serve the elderly with the Secretary's approval. Caseload conversion authority was established before the Department implemented an order of funding that directly assigns caseload for the elderly. At present, elderly are served by twelve of the twenty CSFP State agencies. We are concerned that the current caseload conversion authority can provide a disincentive for serving women, infants, and children in States that can easily find additional elderly participants or simply prefer to serve the elderly. There has been a steady increase in the portion of caseload slots used for the elderly, from 29 percent in 1987 to 39 percent in 1989. At the same time, the WIC program is criticized for not serving more of the women, infants and children population.

In order to highlight the fact that women, infants and children are the population at highest risk, and, therefore, most in need of CSFP benefits, the Department proposes to repeal the current caseload conversion authority while retaining the general authority to serve low-income elderly persons.

This amendment would allow the CSFP to reach women, infants and children that are currently unserved by either WIC or CSFP. USDA currently is authorized to reallocate unused caseload slots for women, infants and children from States unable to use them to States able to serve this critical target group.

It is important to note that our proposal **will not reduce service to the elderly.** Current elderly caseloads would be protected, and increases in the elderly caseload would occur through reallocation at the national level if none of the participating States had women, infants or children who could be served.

THE FOOD DISTRIBUTION PROGRAM ON INDIAN RESERVATIONS (FDPIR) AND FOOD DONATION TO SELECTED GROUPS

REAUTHORIZATION

The FDPIR provides USDA food to help meet the nutritional needs of low-income households on Indian Reservations, and Indian households near reservations. FDPIR provides an alternative to the Food Stamp Program in areas where Indian Tribal Organizations request to and qualify to operate it. FDPIR serves about 143,000 participants. Also, the President's budget requests an increase in the FDPIR budget for food package improvements, and we currently have a study underway that will provide us with more information on Indian food preferences and special food needs.

Food donations to selected groups provide commodities to summer camps and for disaster relief. As you may recall, these and other commodity programs were tapped for disaster relief as part of USDA's response to the California earthquake and Hurricane Hugo in the Caribbean and South Carolina. Households affected by these disasters received more than five million pounds of USDA commodities, valued at more than $3 million.

The Department recommends reauthorization of these programs.

FOOD DISTRIBUTION PROGRAM ADVANCE FUNDING FOR STATE OPTION CONTRACTS

Schools want commodities in more highly processed forms to minimize labor costs. Currently, USDA lacks the authority to process donated commodities at State request and subsequently recover the cost of processing from States. Under a State Option Contract (SOC), USDA purchases processed commodities (e.g. chicken nuggets) and the State agrees to pay the cost of processing the chicken into nugget form. States support the concept; however, many States cannot pay processing costs within seven days of receipt of the product, as currently required. The proposed legislation would allow USDA to pay the processing cost initially and then recover these costs from States. This would give States a more reasonable payment period.

The Administration, therefore, is proposing that USDA be provided with the legislative authority to pay processing costs in advance using Section 32, Commodity Credit Corporation, Child Nutrition Program, and Nutrition Program for the Elderly funds and ensure recovery of costs from States. If such recovery is not made within 150 days, offsets would take place within another 30 days.

COLLECT SOCIAL SECURITY NUMBERS (SSNs) IN FDPIR AND CSFP

The collection of SSNs is already required in many Federal programs, including the Food Stamp Program, the National School Lunch Program, and the Aid to Families with Dependent Children Program. SSNs are needed to verify application information.

The Administration is proposing to require the collection of Social Security Numbers in the Food Distribution Program on Indian Reservations and in the Commodity Supplemental Food Program for all applicants and household members 18 years or older.

CONCLUSION

In closing, **this Administration believes it is imperative for Congress to reauthorize our domestic food assistance programs, which have become so important to the nutritional well-being of low-income Americans. Benefits of the Food Stamp Program should be fully funded and support for the Temporary Emergency Food Assistance Program should be continued.**

This represents a substantial commitment of the Department's resources.

Mr. Chairman, we stand ready to work with this Committee and with the Congress to develop new legislation that ensures continued nutrition assistance for our nation's needy and strengthens the administration of domestic food assistance programs to meet the challenges and opportunities of the 1990's.

This concludes my prepared remarks. I would be happy to answer any questions that you might have.

The CHAIRMAN. Secretary Bertini, first I do want to reemphasize what I said before. I appreciate the work you and your office have done with our staff. I have stated over and over again one real desire in the whole area of nutrition. I want to get a solid, bipartisan nutrition bill out of here. I want one that can put together the kind of bipartisan coalition that has been so successful in the past, a coalition that reaches across ideological lines; and one which, when it gets onto President Bush's desk, he can feel proud to sign. I think we can do that.

I think the fact that we have gotten extra money for nutrition, at a time of tightening budgets, shows a unique commitment to nutrition programs throughout Congress. I believe we can get a nutrition bill, and I think we really have to do it.

Neither you, nor I, nor anybody else can accept unnecessary hunger in this country. We can't accept the situation where there are people who have no way of getting food, who go hungry because they have no choice in the matter. Every one of us in this room, if we go hungry, we do it by choice. We do it because the holidays are over and we now have new resolutions of dieting, or whatever the issue might be, but we make that choice.

We can walk out of this room here in the Capitol and walk a matter of dozens of yards and see people who don't have that choice, and we can do that in any city or any town in the country, so I am glad that we have this chance to work together on relieving hunger. We will be more effective if we are working together, and I applaud you and thank you for your efforts.

I note the administration's bill has a number of provisions dealing with food stamp fraud at retail stores. Do you feel your proposals will adequately address this issue?

Ms. BERTINI. Yes, we do. We think that we need to address, it is very important to address the issue of fraud and to ensure that the money that is available for those who are needy actually goes to them, so we developed the proposals that we give to you with several thoughts in mind.

One is that those who are using, who are selling food stamps or accepting food stamps for illegal purposes, such as firearms and others, have tougher penalties.

Second, we are looking at some of the stores that—there are many stores, obviously, on the program, over 230,000, and the vast majority of those, Senator, we have no problem with. But there are some stores, and we think some of them are stores that often don't sell primarily retail foods and foods in general, so we are trying to pinpoint some of those to say that perhaps we should take a second look as to whether or not we should authorize.

The CHAIRMAN. You want food stamps to go for food. You don't want them going for a .357 magnum.

Ms. BERTINI. Yes, sir.

The CHAIRMAN. I think you will find uniform agreement on that around this table. No matter what anyone's view may be, one way or the other, on gun control, we will all agree that no food stamps should be traded for a .357 magnum.

Ms. BERTINI. Yes. I think if I might, Senator, take your point and also expand on the recertification proposal that we make, as well, you know individual clients who apply for food stamps have to be recertified periodically. We think it is only proper and appropriate that we are asking stores to do the same thing on some sort of a periodic basis. That is part of our proposal, as well, and we think that is an important part of the proposal.

We have also proposed that the method to pay for that might be an approximately $10 per year assessment of those stores when they go through the recertification process, which we think is a very modest recommendation and an appropriate amount to pay.

The CHAIRMAN. We will take a look at it. Thank you.

Senator Lugar.

Senator LUGAR. Madam Secretary, in the child support enforcement area, describe the procedures that you think ought to be implemented to make certain that a parent who has left the family is held to some responsibility, and how that can be better brought about.

Ms. BERTINI. Yes. Currently there are many eligibility factors that go into determination of someone to participate in the Food Stamp Program. One of those is, if one is an AFDC recipient, one is also eligible for food stamps. In the AFDC program there is a requirement that a custodial parent cooperate with the child support enforcement agency, and ours is similar to that proposal.

What we would envision in this proposal is that a client would come in, and one of the things that she or he would be recommended to be done is that they would meet with the appropriate child support enforcement officer in order to work on trying to find the absent parent and trying to collect funds for the children. This is done for the children, Senator, and that is our primary purpose in doing it, to ensure that children have the support of both of their parents.

Senator LUGAR. I have raised this point because this is somewhat a point of issue in various drafts of the legislation, as to whether this should be a voluntary exercise on the part of the participant or whether it should be mandatory. I am one who believes it should be mandatory really beyond the nutrition part of the farm bill. It seems to me that the entire thrust of society ought to be to bring responsibility, that parents have that responsibility.

Now this is one point of leverage, and I suspect that this is a debate we will have, as to whether it is a reasonable point. Clearly we want the children and the responsible parents to have the stamps available, to participate, but it is just so important that we proceed to track down those who are not assuming responsibility. That is why I have elicited your comments specifically in this passage, because I perceive this as one area of debate we will have.

Ms. BERTINI. You are absolutely right, Senator, and I am encouraged by your comments. The program already is voluntary. Anyone already can go to a child support enforcement agency, so to suggest legislation that makes it voluntary is not necessary.

Senator LUGAR. Thank you very much.

The CHAIRMAN. Senator Bond, we are glad to have you here, too, sir.

STATEMENT OF HON. CHRISTOPHER S. "KIT" BOND, A U.S. SENATOR FROM MISSOURI

Senator **Bond**. Thank you, Mr. Chairman.

Cathy, it is a pleasure to be with you again. We are delighted to be able to hear the administration's views, and commend the chairman for holding the hearing.

We have, I gather, last year taken care of the WIC program, which I think is a very worthy model for our food assistance programs.

I begin by applauding the administration for their efforts to expand the Food Stamp Program waiver authority for State demonstration programs. Any time we can cut redtape, I think that we gain a great deal of benefits from it. I hope through the nutrition title that we might be able to draw in more of those at risk of hunger, who are, because they are homeless or live in rural areas or remote areas, are falling through the cracks.

I might comment just briefly with respect to the child support enforcement provision that you were discussing with Senator Lugar. The State of Missouri really doesn't think that any further requirements are necessary because the AFDC people already have that responsibility for the opportunity to participate, and many of the people on food stamps would be elderly, for whom it would not make a good deal of sense, so we would not suggest going further in that area.

I gather from your comments, from your written comments about TEFAP, that you no longer feel it should be temporary. I know many of the food banks and others in the State of Missouri think that this is the way to go. Has the administration focused on this? Are we merely continuing it because it has gone on before? Is it better to continue the funding, in your view, of EFAP, and take off the T, agree that it is going to be permanent, rather than reallocating the money, as some have suggested, into the Food Stamp Program? I would be interested to hear if there has been a careful study and a conscious decision to go in that direction.

Ms. **Bertini**. Yes, sir. We have made the conscious decision to propose this be reauthorized for the entire length of the farm bill, and I think part of that decision is that the program is necessary. I have heard the suggestion that, rather than drop the "Temporary," that changing an acronym in Washington is difficult to do, so that it could be called The Emergency Food Assistance Program and keep it as TEFAP.

We believe—and I saw a perfect example of this, Senator, in your State when Congressman Emerson took me and some others to a hearing, a field hearing, and to the Boot Hill Food Bank in Sikeston. We saw a perfect example of why the TEFAP program and the other 13 programs that we have all work well together, because it serves a population that isn't necessarily served by other programs.

The elderly, for instance, in some cases don't apply for food stamps in as large numbers as those that are eligible, but yet they can have this package through TEFAP available to them. It serves the purpose in rural areas like the one we saw in Missouri. It serves the purpose in urban areas as well, and so we have made the conscious decision—and we did debate it within the administration—to propose continuing this program, so we are suggesting that.

I would also, if I might, like to thank you for your encouragement on the waiver area. We do think it is important to expand our ability to help States experiment, and we would encourage your favorable review of that. We are also having discussions about that, as well, with interested parties, to talk about our proposal.

Then finally on the point, I appreciate knowing about Missouri's concern about the child support system but I would like to make 2 points. One, the people that we are talking about serving aren't the elderly, unless they are caretaker relatives, and aren't the AFDC mothers, either, but they are people who are neither—who are single caretaker relatives or living-alone caretaker relatives who aren't AFDC recipients, and there is a population of about 600,000 that this would reach.

Senator **Bond**. All right. Well, I appreciate knowing that. I would agree with you on the utility of the TEFAP program in the rural areas. I have seen it also in some of our housing developments in St. Louis and Kansas City, where the food available through TEFAP is important, and I am delighted to have on the record the clear administration support for the program.

One final item I am interested in, the Electronic Benefit Transfer System. I know there are many, many benefits from electronic benefits transfers, but are you envisioning a grocery store having to put in scanners on every line, a store that has a very low population of food stamp customers? How is that going to work?

I think that if we have too heavy an administrative burden or impose too many costs, and particularly if we say that every grocery store that wants to participate has to have every line equipped for that, you would begin to see stores which have a very small population but may be the only stores available for the recipients in that area just saying, "The heck with it. We are not going to go." Have you taken a look at that? How do you propose to deal with it, and what parameters would you recommend for the experiment on it?

Ms. **Bertini**. I am glad you mentioned that, too, Senator, and I appreciate the chance to say a couple of things. First of all, we are very excited about the program, and you are right, it does have a lot of benefits. In the two areas where we are testing it so far, the clients are thrilled about it, not only because it ensures that all the funds designated for them for food actually goes to food on their table, but also because some of them tell us that it takes some of the stigma away from using coupons because this looks and is just like a credit card or a card used in a bank or a gas station. So that is number one.

The stores are very happy with it, that have it, and the banks are very happy with it, and you can imagine many of the reasons why in terms of administration of the program, easily available reimbursement for the food costs, for the food expended, and so forth.

We have several concerns that we have addressed in our legislation, but there is some concern about the issues that you mentioned. First of all, in terms of stores needing to have this system in order to be able to use the Electronic Benefit Transfer Program, yes, if Electronic Benefit Transfer, for instance, the State of Missouri decided to do it and use that exclusively, then it would be very important that all of the stores where food stamps are currently redeemable are also in use and could use this system, so that we aren't discriminating against any of the clients. That is very important, so the first question is, how many of these machines do they need, and the second question is, who pays for the machine?

On the first question, we believe that it is very important that we ensure nondiscrimination for the food stamp client, but we don't think that means there needs to be a machine in every lane. In fact, now if you go to grocery stores there may be machines in certain lanes that take credit cards. In some grocery stores they say "cash only in this lane," you know, you can use a check in another lane. There are already ways in which stores can put systems in different lanes.

So we would think that it would be appropriate to have some sort of measure upon which, based on for instance volume of food stamps used or number of folks who access the store, that perhaps there could be a formula so that the stores could have these machines in the appropriate numbers of lanes. However, I want to reiterate that we are committed to ensuring that clients aren't discriminated against in the process.

But the third issue is who pays for it, and there is currently a line in Federal law that says that the retailers will not pay for it, these machines. That means that the Government will, unless the retailers on their own offer to put in this equipment. In some cases that is happening. I went to a retail store just recently when I was in Ithaca, New York where they had a system developed where they use credit cards, bank cards, checks, and they have a very sophisticated system in which they can use all of those, and they told me 53 percent of their business is done now on the machine as opposed to with cash or food stamps. So some stores are already going to that in some——

Senator **Bond**. I take it that those, the machines, the credit card machines, are readily adaptable to use the EBT card without any problems. The same system that is set up for debit cards can be used for the EBT?

Ms. **Bertini**. Yes, sir. There are differences, obviously, nuances, but the basic technology is the same.

Senator **Bond**. OK, and what does one of those machines cost, how much? Do you have any idea?

Ms. **Bertini**. Approximately $600 a machine.

Senator **Bond**. But when you talk about a test program, this is kind of either/or. You can't give people a handful of food stamps and an EBT card. You have to go all one way or the other, don't you? So when people get into it, you can't mix and match.

Ms. **Bertini**. Yes, but States can phase in, so States can—in other words, systems can continue to accept both cards and——

Senator **Bond**. But the recipient has to go either on——

Ms. **Bertini**. Right.

Senator **Bond**. OK. Well, it sounds very interesting. I appreciate your discussion of it.

Thank you, Mr. Chairman.

The **Chairman**. Thank you, Senator Bond. I was quite interested in your questions on the TEFAP program. I might say, Madam Secretary, there has not been a TEFAP program—let me state that another way—I have visited TEFAP sites in a number of different places in the country. At a number of them, people didn't have the foggiest idea of who I was and I had no intention of letting on, but just started talking with the people who were there about what they thought of the program, how well it worked. While I realize that anecdotal experiences are not necessarily conclusive of anything, everywhere I have been, the stories I have heard have been positive.

I like the TEFAP program because it is food, and commodities going directly to the people. The type of volunteer organizations that have been involved in it, from church groups to civic groups to local community groups, have been enthusiastic in their involvement, and from the South Bronx to the inner city in Washington to rural areas. I hear from person after person that it has made the difference whether they have fed their families or not, so I am glad it will continue.

I thank you very much for being here.

Ms. **Bertini**. Thank you.

The **Chairman**. Our next witness, Rob Fersh, Director of the Food Research and Action Center, is no stranger to this committee. He has been in here over the years on both ends, both sides of the table, working on nutrition issues. I know that he has been a good counsel to me and to the other body over the years.

Rob, we appreciate having you here.

STATEMENT OF ROBERT J. FERSH, EXECUTIVE DIRECTOR, FOOD RESEARCH AND ACTION CENTER, WASHINGTON, DC

INTRODUCTION

Mr. **Fersh**. Thank you very much, Mr. Chairman. I am delighted to be here. I first would like to say I will summarize my statement for the record and ask that it be included.

I would like to acknowledge at the outset the outstanding leadership that both of you have provided, and the entire committee over the years, on the nutrition issue. I can think of few people who have had more of a lasting influence than the two of you on the status of the programs that exist today. I am very hopeful, based on what I have heard so far, that once again this committee will come forward with a strong bipartisan package that will make an unequivocal statement about the need to address hunger in this country.

I would underscore that what appears to be pending before the committee, in terms of either the Sasser-Domenici-Leahy-Boschwitz Hunger Prevention Act or what ultimately I suppose will become the Mickey Leland Domestic Hunger Relief Act is by far and away the most important hunger initiative in this country since 1977. It has vast implications for millions of households, and that is one of the reasons why there is widespread support throughout national organizations and throughout groups across the country that have spoken out on this issue.

I will mention at the outset that attached to my testimony is a statement of principles about hunger in America that over 100 national organizations[8] joined in last fall, because of their concern about hunger in America and their desire to have some important changes occur. I think that is fairly remarkable, given that the principles largely address the Food Stamp Program, clearly not one of the most popular programs in terms of public opinion.

I am going to, again, summarize my comments.

THE COMMUNITY CHILDHOOD HUNGER IDENTIFICATION PROJECT

Most of my initial testimony describes an important project that we at FRAC are conducting, called the Community Childhood Hunger Identification Project. Simply put, it probably is the most scientific and comprehensive study of hunger ever done in this country, public or private sector.

It is at a cost of, including the local sites' cost, roughly $1 million over a 2½ year period where we are using a survey instrument that is highly scientific to go door-to-door and try to measure hunger. We have results from three sites—Minnesota, Washington State, and Michigan now about to come out—and another six sites will report before the end of the summer, and we hope what will emerge is a major national report. The findings we have already are fairly dramatic.

What they found in each site is that when we survey low-income households, there are substantial levels of hunger amongst children. If the results from the initial sites were to hold up nationwide, we estimate conservatively, based upon expert academic advice, that today there are 2 to 5 million American children who are flat-out hungry and 8 to 9 million American children who are at risk of hunger.

Beyond that, what we are finding is that the kids who are hungry—all the people surveyed are from low-income households, and we have been able to distinguish hungry versus nonhungry households—we find those that are hungry, the children that are hungry, have suffered 2 to 3½ times the specific health problems in the prior 6 months than children from nonhungry families, and that those health problems are associated with higher absenteeism from school.

We have not yet—we have one study that is going to try to get at school performance in Florida, that is underway now—we have yet to document school performance, but I don't think it takes too great a leap to imagine that kids that are sick more often, irritable, tired, fatigued, kids who miss more school, probably do less well in school. Thus ultimately, as you stated at the outset, Mr. Chairman, their nutritional status today may well be determining their role as productive citizens over time.

CCHIP FINDINGS

Now our CCHIP findings I think have important implications for the issues in front of you. I would like just to simply highlight them. We think the CCHIP findings underscore that increasing food stamp benefits is a very sound policy decision in terms of trying to alleviate hunger amongst poor households.

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[8] See pages 130–133 for this material.

LEGISLATION

We are very much in favor of and strongly support the provision in both the Hunger Prevention Act, the Sasser-Domenici Act, and the Leland Act that would raise basic benefits to 105 percent of the Thrifty Food Plan. We think that would be a major step forward toward adequacy of these benefits.

In addition, of interest I think to both of you in terms of the shelter costs in your States, probably the single most important provision that is included in these bills is the phase-out of the shelter deduction cap that currently limits the amount of food stamps households with high shelter costs can get. Frankly, I think that the shelter cap is an historical anachronism. It was put in place in 1977 at a time of a lot of changes in the program. There was a fear that people would take one deduction after another, have high incomes, and be able to qualify for the program.

We now have a gross income cap that has been in place. It was the definition suggested by the Reagan administration in 1981. That eliminates any high income people. The need to have a shelter cap is no longer justified on a policy basis, and in point of fact the shelter cap means that the program assumes that certain money that is actually spent on shelter is available for food. It assumes that people have that money available for food, when in fact it goes for shelter, and I would underscore that it is the single most important change that I believe you can make in the Food Stamp Program this year.

Of course there are many other aspects—and in the interests of time, I won't go through them—that are under consideration and we support. There are lots of barriers to participation that ought to be reduced. Certainly the TEFAP program ought to be extended and strengthened. It is filling a very valuable role.

THERE ARE VARIOUS OF THE ADMINISTRATION PROPOSALS THAT I THINK ARE WORTHY OF SUPPORT

There are various of the administration proposals that I think are worthy of support. I particularly applaud their attempt to eliminate the spending ceiling on the program. I applaud other changes in terms of documentation of aliens. We are sympathetic on the Electronic Benefit Transfer issue, although we have some differences in terms of client protections there.

TWO ISSUES OF CONTROVERSY

In just a couple of minutes of remaining comments, I would like to focus on two issues that I think are controversial, one of which has been focused on already, which is child support. The other one has not yet been aired fully, but I am going to take the risk of speaking to it here in the hopes that it may contribute to the debate.

I understand how difficult the child support issue is. And, Senator Leahy, I understand fully and appreciate how important the obligation to support those children is. In fact, I applaud the administration's raising of this issue. I think it has not been given sufficient attention; that there ought to be greater child support collection efforts. I think all of us—in the advocacy community, Congress, anywhere else—ought to do what we can to maximize the support paid to children. I think that is what the goal is about.

The controversy arises on the voluntary versus mandatory approach. I think, simply put—and I would be delighted to meet face-to-face with any Members or provide additional materials to make this case in a longer setting—simply put, we believe the mandatory aspect will lead to more hunger and more problems than the voluntary approach.

In a nutshell, people on the Food Stamp Program have a very strong financial incentive to cooperate. Unlike AFDC, where if they cooperate, almost all the money goes back to the States, if you are on food stamps you get to keep 70 percent of the money. I don't think most food stamp recipients know that. Today most food stamp recipients haven't even been told, it would be my estimation, that there is a child support collection service available to them.

Contrary to what you might have assumed thus far, even though there is voluntary participation now, in point of fact for most food stamp recipients to participate they would have to pay a fee. When you don't have enough money to feed your family to begin with, to cough up $25, $50 or more right now would be a crippling blow. Thus, many of them probably do not participate because of that.

I would suggest, beyond that, there are indications that the system right now is overloaded, that it is having trouble dealing with the backlog of AFDC cases, and that because of the financial incentives, because it is so much in a person's interest to participate, that if these services were offered, most mothers would choose to do what is right—that is, to go out and get the support.

What could be the only reason they wouldn't cooperate? The only reason, from my way of thinking, would be that they are afraid that cooperating could lead to some kind of reprisal from the father of the children. What we get down to, to some degree, is whether we are to trust the mother—we encourage her, we give her incentives, we give her services, we tell her, "It is there. You are going to be much better off"—whether we trust the mother, or whether we trust the Government to make a determination as to what is in the best interests of the child.

Unfortunately, we have indications from our network around the country that although there are exemptions built in, exceptions built into the AFDC system which would allow certain mothers not to cooperate if they have good cause, those exceptions are very imperfect. They are administered by human beings at the local level throughout the country and with differing standards, and it is unclear that people—in fact, it is clear that many people who do not believe it is in the best interests of their child are being forced to cooperate. Others do not cooperate and are being eliminated from the program and face hardship. This is also under circumstances in which many of these people, even if they did cooperate, there would be little to collect from impoverished fathers.

CONCLUSION

So those are some of the issues I wanted to get out. I hope we can have a reasoned discussion about it. I hope that the bottom line goal will be that we try to increase child support and decrease hunger.

The last issue I will raise today, and I appreciate your patience in allowing me to speculate a little bit, is an issue called sequestration. Like the 1988 Hunger Relief Act, both the Mickey Leland Act and the Hunger Prevention Act have provisions that would try to protect the bill in terms of cost. That is, in the event there is a sequestration next year, an across-the-board cutback in programs, both of those bills would delay any new spending provisions for 1 year.

It is my understanding that floating around the committee now are some suggestions, potentially, that would say if there is any kind of sequestration next year, the increases in the bill might be permanently canceled, or some variations that we believe would have the same effect. We think that it is terribly important that no such provision that goes beyond what Senators Sasser and Domenici and Representative Panetta have suggested in the House and Senate be put in.

Mr. Chairman, we view these proposals as very similar to the so-called Gramm killer amendment that was pending in 1988, which you helped lead a campaign against. The amendment eventually was never offered because a trial balloon went up and Senator Gramm was defeated resoundingly, but the effect of this amendment would be the same. That is, if in fact there is sequestration next year, it would jeopardize every provision of this bill.

We think it is terribly important not to go beyond what the chairman of the Budget Committee in the House and the chairman and ranking minority member of the Budget Committee in the Senate have suggested. They are putting money in the budget. We think you would be sending a very unclear message, not only to the antihunger community but to the Nation as a whole, as to whether in fact you intend to do something about hunger amongst homeless people and children and so on, if in fact all your good work could be canceled upon some subsequent sequestration effort that even was a minimal cutback of programs across the board.

Mr. Chairman, I appreciate your patience. I appreciate the opportunity to testify this afternoon. I am happy, with the rest of the FRAC staff, to stand ready to be helpful to you in any way. Thank you.

[The prepared statement and attachments of Mr. Fersh follow:]

FRAC
FOOD RESEARCH AND ACTION CENTER

Testimony of

Robert J. Fersh

Executive Director

Food Research and Action Center

before the Committee on Agriculture,

Nutrition, and Forestry

United States Senate

Hearing on the Food Stamp Program and
commodity distribution programs

April 18, 1990

1319 F STREET, N.W. #500 • WASHINGTON, D.C. 20004 • (202) 393-5060 / FAX (202) 347-4551

Good morning. My name is Robert Fersh, and I am the Executive Director of the Food Research and Action Center here in Washington. FRAC, as we are commonly called, is an organization that works to alleviate hunger and poverty in the United States. We work on many different levels, but our particular area of expertise is federal food assistance programs. Thank you very much for the opportunity to testify here today.

I would like to add at this point, Mr. Chairman, that we deeply appreciate your, and Mr. Boschwitz's, co-sponsorship of the Hunger Prevention Act of 1990, introduced by Senators Sasser and Domenici, and that we are pleased to hear that you are working on a Senate version of the Mickey Leland Memorial Domestic Hunger Relief Act. As someone who had the opportunity to work with Congressman Leland over the years and who knew the passion he felt for the crusade against hunger, I feel that this legislation is a fitting tribute to a great leader.

The Community Childhood Hunger Identification Project

I would like to begin by presenting to you the initial findings of our groundbreaking Community Childhood Hunger Identification Project, or CCHIP, and discuss the implications of these findings in light of the reauthorization of nutrition programs in the 1990 farm bill. CCHIP originated out of a growing concern in communities across the country in the early 1980s that hunger was increasing. The CCHIP survey was developed by the Connecticut Association for Human Services in consultation with eminent social science researchers and has been widely recognized as a statistically valid, indeed conservative, tool for estimating the prevalence of hunger in a community. An indication of its validity is the National Center for Health Statistics' incorporation of a number of CCHIP questions into its National Health and Nutrition Examination survey.

After pilot testing in New Haven, Connecticut, FRAC is now conducting studies nationwide. Washington State and Minnesota have completed their studies, and the survey is currently in progress in Alabama, California, Connecticut, Florida, Massachusetts, Michigan and New York. The results from all nine sites will be released in a final national report in the fall of this year, but as soon as results are available at each site, they will be released locally.

CCHIP's Findings in Connecticut, Washington State and Minnesota

We found the following hunger prevalences in these sites:

Findings of the Community Childhood Hunger Identification
(Percent of Children Surveyed)

	Hungry	At Risk of Hunger	Combined (Hungry and at Risk of Hunger)
New Haven, CT	18%	47%	65%
Seattle, WA	42%	37%	79%
Yakima County, WA	39%	42%	81%
Pend Oreille, WA	21%	57%	78%
Hennepin County, MN	37%	43%	80%

If we assume that the rates of hunger and risk of hunger we have found so far among low-income families hold for low-income families nationwide, we estimate, conservatively, that two to five million low-income children in the United States are hungry at any given time. Moreover, a total of 8 to 9 million children are either hungry or at risk of hunger at any given time. I should also say that, although we will not be formally releasing the final results of our CCHIP survey in Michigan until June, the data from that state are consistent with that from the three other sites.

We found in the three areas we have surveyed that there was a relationship between hunger and the health status of children:

- Hungry children in New Haven suffered from almost twice as many specific health problems, such as ear infections, dizziness, colds, and unwanted weight loss, in the six months previous to the survey than did children from other households.
- Hungry children in Washington state suffered from two to two and a half times as many specific health problems in the previous six months than did non-hungry children.
- Hungry children in Hennepin County suffered from three and a half times as many specific health problems during the previous six months than did children from non-hungry families in the same area.

In addition, in all three sites, children who had more of these health problems were more likely to be absent from school. While we cannot conclude directly from our results the impact of this increased absenteeism on school performance, we suspect that it has a negative effect.

We also have taken a closer look at shelter costs in Hennepin County as they relate to hunger. We have found that a significantly higher percentage of hungry families spent 30 percent or more of their incomes on shelter than non-hungry families (77% vs. 56%). In addition, 45 percent of hungry families spent over 50 percent of their gross income on shelter costs. The average shelter cost for hungry families in Hennepin County was 55% of their income. We also found that the higher monthly shelter costs were, the more likely families were to rely on emergency food programs.

Moreover, when we compared the monthly income and shelter costs of the poorest households (less than 75 percent of poverty) with those households between 131 and 185 percent of poverty, we discovered that, while the gross monthly income of the poorest households was only 37 percent of less poor households, their shelter costs were 67 percent. This suggests that housing costs are inelastic after a certain point and that the poorest households have little choice -- pay the going market rate or become homeless. It is not surprising then that the amount these households expend for food is highly associated with their monthly shelter costs.

Summary of CCHIP's Findings

CCHIP tells us that, even based on a very careful and conservative measure of hunger, a significant number of households with children, whose incomes are at or below 185 percent of the poverty level, are hungry or at risk of hunger. CCHIP reveals that households experiencing hunger are much poorer than non-hungry households, and that, the poorer families are, the more likely they are to be hungry. These hungry families are struggling to cope with limited resources to purchase food -- buying less expensive foods, borrowing money for food, getting food from friends and relatives, sending their children to eat at homes of friends and relatives, getting meals at soup kitchens, and obtaining food from food pantries. CCHIP respondents also tell us that food pantries can only provide them with an amount of food that makes a limited number of meals.

We know, based on our survey findings, that a large percentage of hungry families are participating in the Food Stamp Program. Most of these families cannot feed themselves for an entire month on food stamps, and find themselves running out of stamps between the second and third week. Although most add some money for food, it is clearly not enough -- they are hungry in spite of the fact that they participate in the Food Stamp Program. In fact, according to our CCHIP survey, the average family with children receiving food stamps in Hennepin County is spending, when cash and food stamp benefits are combined, significantly less than the cost of USDA's lowest cost food plan.

Finally, we have been able to calculate some of the consequences of hunger for the children in hungry families. In the three areas surveyed, hungry children suffered from two to three and a half times as many specific health problems during the previous six months than did children from non-hungry families. In addition, children who had more of these health problems were more likely to be absent from school.

Policy Implications of CCHIP Survey Results

It is important to put the CCHIP data in the context of what we know about the Food Stamp Program. This Program is our nation's largest and first defense against hunger. It is the only kind of public assistance that the federal government offers to low-income people no matter what their age or health status. We know that food stamp recipients are poor. According to the U.S. Department of Agriculture's most recent analysis of the characteristics of food stamp households, nearly 94 percent of all households had a total gross income that was equal to or less than the poverty guidelines and 39 percent were below half the poverty line. The findings from CCHIP suggest that a large percentage of these people are likely to be hungry. The same USDA report states that 51 percent of all the people participating in the Food Stamp Program are children -- just the people whose health status and school attendance are negatively affected by the presence of hunger in the family, according to our findings. Finally, the vast majority of food stamp funding goes to low-income households with children. USDA reports that almost 83 percent of food stamp benefits go to these households.

Our data suggest that if we are serious about ending hunger among the poor, or at the very least reducing its prevalence in the United States, increasing food stamp benefits would be a very sound policy decision. The Mickey Leland Memorial Domestic Hunger Relief Act and the 1990 Hunger Prevention Act would do just that. We strongly support the provision in the bill which would raise the basic food stamp benefits in stages to 105 percent of the Thrifty Food Plan. Over the 13 year history of the use of the estimated cost of the Thrifty Food Plan market basket as a basis for food stamp benefits, the average estimated cost of the market basket has exceeded the estimated cost in the previous June by an average of 5.4 percent. The adjustment to 105 percent of the previous June's cost is needed to make it more likely that food stamp allotments will be sufficient to meet the estimated cost of the market basket most or all of the year.

Another problem highlighted by CCHIP is the relationship between high shelter costs and hunger among poor families. As I noted previously, our analysis of shelter costs in Hennepin County, Minnesota, revealed that a significantly higher percentage of hungry families spent 30 percent or more of their income on shelter than non-hungry households. The average shelter costs for hungry families was a large percentage of their income. In fact, almost half spent over 50 percent of their gross income on shelter costs. Another sign that these households were suffering from inadequate resources for food is that the higher their monthly shelter costs were, the more likely they were to rely on emergency food programs. It is clear from this data that low-income hungry households with children must spend a significantly higher proportion of their income on housing. Yet, these are the very families who are suffering from limited resources to purchase food.

The Leland Act and the 1990 Hunger Prevention Act address this problem by phasing in the deduction of all shelter expenses that exceed 50 percent of income for households with children. Currently, families with children can deduct only up to $177 a month. This results in unrealistically low food stamp benefits for families with high shelter costs, the very families who CCHIP shows need greater food stamp assistance to avoid hunger.

HUD and Census Bureau data show that 45 percent of all poor renters spend at least 70 percent of their incomes on shelter costs. Based on CCHIP's findings to date, it is probable that a large percentage of these low-income renters are households suffering from hunger. Lifting the cap on the shelter deduction could make a significant difference in their access to food.

Indeed, we have done a special analysis concerning the potential impact the provisions I have discussed today would have on the families surveyed in Hennepin County. Together, the increase in the food stamp allotment from the 100.65 percent in effect at the time of the survey (1989) to 105 percent of the Thrifty Food Plan, and the removal of the cap on the shelter deduction, would increase household food resources for these families by an average of 10.6 percent, a substantial improvement in nutrition for these low-income households. I am pleased that Senator Boschwitz, who joined us in announcing the results of the Hennepin County survey, is supporting this proposal in the Hunger Prevention Act.

Although I have focused specifically on only two provisions in the bill, we believe that the Leland and Hunger Prevention bills in their entirety are very much in keeping with what the findings of the CCHIP surveys suggest should be done -- that food stamp benefits should be increased so that low-income families are less likely to be hungry; and that the Food Stamp Program should be open and accessible to low-income households who can benefit from the increased food purchasing power that the Program provides. We believe the passage and enactment of these initiatives will make a significant impact on reducing hunger in the United States.

We also support the strengthening of the TEFAP program included in the proposed Leland Act and Hunger Prevention Act. America's primary line of defense against hunger is, and will remain, the Food Stamp Program, but TEFAP fills an important need. CCHIP data shows that a large percentage of poor, hungry families turn to emergency food programs for assistance. CCHIP data also shows that even with the important increases in Food Stamp Program funding that this bill provides, food stamps will still not provide enough resources for many families to make it through the month.

I have attached to this testimony a statement of principles concerning Fighting Hunger in America and a list of 110 national organizations that have endorsed the statement. This statement summarizes the kinds of changes that will be needed to continue to make a serious attempt to end the problem of hunger in America. FRAC believes that the Leland Act and the 1990 Hunger Prevention Act are very much in keeping with the recommendations made in the Statement of Principles.

Spending Levels

We strongly support the Administration's proposals for open-ended authorizations and appropriations for the Food Stamp Program and an advance appropriation for fiscal year 1992. These reforms will end the yearly uncertainty that food stamp recipients and state and local programs that possible benefit suspensions have caused in the past.

The Administration's Child Support Proposal

We strongly believe in the importance of child support as a means for helping low-income people escape poverty. We applaud the efforts that have been made to date to expand the collection of support for all low-income children. We believe that a great deal more needs to be done to reduce barriers to access to the services of state and local child support enforcement agencies.

This Committee is in a position to make important progress in improving opportunities for food stamp households to obtain child support. Outreach to inform food stamp households of the availability of these services, opportunities to apply for them at the food stamp office without missing additional days of work, waiver of fees and costs for child support services, and sharing of useful information that food stamp offices may have would all be valuable reforms that should substantially increase collections of child support for food stamp households. We note that food stamp households have proven highly motivated to seek child support: the percentage of food stamp households receiving child support is higher than that of poor families generally or of AFDC recipients, despite the absence of any requirements that they be told of child support services and despite the many barriers they now must overcome to obtain these services.

We believe that the Administration correctly has called attention to the issue of child support enforcement on behalf of food stamp households. And while we are in agreement with the goal of maximizing collections for these households, we urge you to reject one aspect of the Administration's proposal: the requirement that food stamp households must help establish paternity and collect support as a condition of eligibility. We strongly oppose this proposal for several reasons:

o The Administration's proposal is unworkable. State child support collection systems are already overloaded. The Administration's proposal provides no new administrative money to handle the potentially large volume of new cases the system would be required to handle. There is widespread opposition to this proposal among governors, state legislators, and state and local food stamp and child support enforcement officials. (I have attached to this testimony copies of some letters opposing this proposal.) As drafted, the Administration's proposal is not designed properly. It does not eliminate the fees that food stamp recipients must pay for child support services under law. Although, under the proposal, food stamp recipients cannot be penalized for failure to pay fees, the underlying law still requires that fees be charged.

o The Administration's proposal will likely create hardship. By sanctioning people for failing to cooperate, many needy families with children are likely to be hurt. According to testimony before the House Nutrition Subcommittee, an informal survey in Chicago found that 35% of the women with children living in homeless shelters were there as a result of child support sanctions. Courts have found that many parents are sanctioned for non-cooperation because they missed appointments to take their children to the hospital, because of scheduling misunderstandings, or because child support workers did not believe that they did not have more information. Although there is little reliable statistical information about the number of people nationally denied AFDC because of alleged non-cooperation in seeking child support, the Illinois Department of Public Aid identified 7,000 people currently under sanction in response to a court order to reinstate people sanctioned through improper procedures.

o It is in the self-interest of food stamp recipients to cooperate with child support enforcement. Except where they have strong reasons to fear abuse, most food stamp households will be eager to accept help getting child support collection if help is offered since they can keep any support that is collected and their food stamps will drop only $3 for every $10 collected. AFDC households do not have the same incentive to seek support: most support collected for them goes to reimburse the State for assistance they have received.

- The imposition of sanctions can distract from the fundamental task of seeking child support. According to testimony before the House Nutrition Subcommittee, some states may spend more resources imposing sanctions than they do pursuing support.

- The Administration's proposal will not be cost-effective. In FY88, the child support collection system lost the federal government $357 million. We understand that last year's losses approached half a billion dollars. The losses more than tripled between FY84 and FY88. A mandate in the Food Stamp Program would be even less cost-effective. Support collected for AFDC recipients is applied dollar-for-dollar to reduce benefit costs (after the first $50), but child support collected for food stamp recipients will reduce food stamp benefits by only 30 cents for every $1 paid.

- Given the strong incentives parents have to seek child support, the Administration's proposal would substitute the judgment of the government for that of the parent as to when it is appropriate to seek child support. Custodial parents may not want to cooperate because they fear violence by the absent parent. Recent Census data shows that almost a third of non-AFDC single-parent food stamp households are receiving child support, a significantly greater percentage than for either AFDC households (who for several years have been subject to a mandate similar to the one USDA is proposing) or poor single-parent households generally. This suggests that food stamp households are motivated to seek out child support and that punitive sanctions are unnecessary.

- Sanctions for non-cooperation will increase the stigma of the Food Stamp Program. Most households affected will be working poor families. (AFDC and Medicaid recipients are already subject to cooperation requirements.) These parents may avoid the Food Stamp Program rather than answer the highly personal questions about their sexual history required to establish paternity.

The Effect of Sequestration on Anti-hunger Legislation

I would like to direct my final comments to a proposal which, in my view, represents the most serious threat left to the realization of the policy changes recommended in both the Leland Act and the 1990 Hunger Prevention Act. It is a proposal that has not yet been formally put forward, but, I am told, is under serious consideration here within the offices of Committee members. I raise this issue now because if this proposal, in any of the forms now being discussed, were to be enacted, the likely effect would be to nullify the anti-hunger provisions likely to be included in the farm bill.

As introduced, both the Leland Act and the 1990 Hunger Prevention Act have a measure of "budget protection". Both bills would delay for one year most of the benefit increases included should there be a budget sequester in FY 1991. That is, should there be across-the-board spending reductions of any amount due to a failure to meet Gramm-Rudman-Hollings targets for FY 1991, most of the food assistance increases in these bills would face a one-year delay in implementation.

We do not favor such an approach. We are aware of no such limitations ever having been placed on any other program in any area of the budget. The only precedent we are aware of is the 1988 Hunger Prevention Act, which similarly subjected food assistance improvements to a possible one-year delay.

According to reliable sources, a proposal now floating within the Committee would either cancel any benefit increases permanently should there be an FY 1991 sequester or would take a more complicated approach with the same effect. The net effect of any such proposal, in our view, would be to kill the Mickey Leland Domestic Hunger Relief Act or its Senate equivalent.

In light of this year's experience, in which a budget sequester is in effect, budget analysts now view sequesters in future years as likely. In fact, Office of Management and Budget Director Darman has indicated repeatedly that, from the Administration's perspective, sequestration is an acceptable method of deficit reduction. Thus, the results of the proposals now under consideration in this Committee are likely to be tantamount to enacting no hunger relief bill at all.

We urge the Committee to reject any sequestration provision that goes beyond that of the Leland and 1990 Hunger Prevention Acts. Any approach going beyond these bills suggests conflicting messages on Congress' intent to feed our most vulnerable citizens. Those who oppose additional spending to feed hungry children, their families, the homeless and those on the brink of homelessness should say so directly. We think it is inappropriate to single out these programs and these populations in a manner that does not apply to any other area of the budget. I am unaware of any proposals from the Administration or from Congress that would subject the implementation of a capital gains cut or "Family Savings Accounts" to a similar sequestration provision--yet both proposals would add substantially to the deficit in the out-years and increase the potential level of a sequester for other programs. Similarly, I have heard of no serious discussion of cancelling proposed increases for NASA or manned space flights should there be a sequester next year.

Today one in five American children lives in poverty. Nearly five million children live below half the poverty line and studies suggest that as many as five million children are hungry today. Other studies document that the United States provides a lower level of governmental support for these children than virtually any other industrialized, western democracy. At a minimum, these circumstances require an unequivocal statement from the Congress that these children and their families should be able to eat.

Waivers Authorizing Denials of Crucial Protections to Hungry Households

The Administration's farm bill proposals include a call for significantly broader waiver authority for USDA in the Food Stamp Program. We believe that this would be inconsistent with the time-honored principle of congressional control over the Food Stamp Program and could undermine crucial protections for hungry households that depend on the Food Stamp Program. Current law already provides the states and the Department with extensive waiver and demonstration authority to try new approaches to administering the Program. A significant comprehensive reform demonstration is under way in Washington State, and another will be starting soon in Minnesota under legislation approved last year. We are aware of no important waiver proposals that the Department has been unable to grant under current law except for ones that would deny households basic protections guaranteed under the Act. Indeed, a White House memo urging broader waiver authority in the Food Stamp Program, which may have been part of the impetus for this proposal, identified reductions in households' benefits as a major category of waiver that broader authority should be designed to accommodate. Granting the breadth of authority that the Administration is proposing would be in essence to abdicate congressional control over the Food Stamp Program. We hope that this Committee will decline to do so.

Conclusion

We encourage you to examine during your deliberations legislative changes in the Food Stamp Program that will increase benefits appropriately and bring needy people into the Program. There is a growing concern among many in our nation about the large number of children being raised in poverty, in part because of what we now know about the relationship between poverty and hunger, and about hunger's impact on children's ability to learn. It is important to remember that a hungry child cannot learn and an under-educated adult cannot compete. Our investment in the Food Stamp Program now can truly be an important investment in our nation's future leaders. Thank you for the opportunity to testify today.

National Conference of State Legislatures

444 North Capitol Street, N.W.
Suite 500
Washington, D.C. 20001
202/624-5400
FAX/202-737-1069

Lee A. Daniels
House Minority Leader
Illinois
President, NCSL

Patrick J. O'Donnell
Clerk of the Legislature
Nebraska
Staff Chair, NCSL

William T. Pound
Executive Director

CHILD SUPPORT ENFORCEMENT AND THE FOOD STAMP PROGRAM

The National Conference of State Legislatures fully supports the rights of all children to be financially supported by both parents. In the case of an absent parent, NCSL supports the enforcement of parental support obligations owed by non-custodial parents to their children. NCSL is concerned about unnecessary and burdensome mandates to the states. NCSL does not support **mandated** child support enforcement (CSE) for the Food Stamp Program for the following reasons:

1. Significant Administrative Burden: States are having difficulty coping with the increased CSE caseload due to the recent AFDC CSE reform under the Family Support Act. Increasing caseloads by enforcing child support within the Food Stamp Program would be an even greater burden on the states.

2. CSE Program Administration: CSE administrative responsibilities must be clarified to determine if it falls under the jurisdiction of HHS or USDA. Skepticism remains regarding the cooperation between two complex and independent agencies to implement an effective responsible program for states within such a short period of time. Revising the child support system and implementing a new program should not be undertaken without a detailed plan.

3. Cost: It is unclear who will pay for the increased administrative costs resulting from food stamp child support enforcement. No evidence proves that mandatory CSE will generate savings or will be cost-effective.

4. Evaluation: An insufficient amount of time has elapsed to properly evaluate the AFDC CSE mandates. More time is needed for further evaluation of its effectiveness before implementing additional mandates.

5. Incentives Calculation: The Administration's proposal has no provision for an additional administrative match to child support enforcement agencies for these activities. There are no provisions regarding the calculation method (capped at 115% or uncapped) of incentive payments to states, and it does not address whether states will recoup any of the collected revenue.

6. Barrier to Participation: Requiring the custodial parent to identify the absent parent will be a serious disincentive to participation. The stigma which is closely associated with food stamp participation would increase significantly to the degree it would deter participation.

7. Definition of "Cooperation": Concern remains over the definition of a mother's "cooperation" to identify the absent father. Because each caseworker must define

Denver Office: 1050 17th Street • Suite 2100 • Denver, CO 80265 • 303/623-7800 • FAX: 303/863-0705

"cooperation' it easily become arbitrary.

8. Improper Questioning: Concern remains over improper and irrelevant questioning when determining the identity of the absent parent.

ALTERNATIVES TO THE CHILD SUPPORT ENFORCEMENT MANDATE

- Increase Outreach: Expand current outreach efforts to include greater number of recipients

- Commission Study: Include in its jurisdiction the responsibility to compare CSE programs within AFDC and Food Stamp Program, to make recommendations regarding the Food Stamp CSE program.

- Mandatory Referral: Require recipients to meet with a child support officer not for the purpose of identifying the absent parent but to help retrieve missing child support.

- Increase Information Exchange: Make use of already established Food Stamp Program computer systems to transfer child support related information, such as, social security number, name and address of the absent parent, to the child support office. Such information would only be available based on the custodial parent's consent.

For further information contact Sheri Steisel in NCSL's Washington D.C. office (624-5400).

HOW THE AFDC CHILD SUPPORT ENFORCEMENT SYSTEM WORKS

Collections: After the $50 disregard, collected child support revenue is divided between the state and federal government. The division is based upon state per capita income. At least 50% of that collection must go back to the federal government.

Administrative Costs: The federal government pays 66% of the states administrative costs thus leaving states to pay for 34% of their own administrative costs. To encourage a more performance-based financing structure, the Federal Financial Participation (FFP) rate for administration has gradually decreased. The rate was 68% prior to October 1989.

Performance Incentives: The more child support a state collects, the greater its federal return. Federal incentive payments vary according to two factors. First, the ratio of the state's child support collections to its total child support expenditures and second, the amount of child support collected. The incentive payment is a percentage of the actual collection. The percentage is based on the ratio of collection to cost. Note, for Non-AFDC collections, the incentive percent is capped at 110% of the collection.

Example: If the AFDC collection totals $200 and administrative costs equals $100 the ratio is 2:1. The incentive percentage for a 2:1 ratio equals 8% (a given). The AFDC incentive totals $16 or 8% of $200.

Collection:Cost	Ratio	% Incentive Received	Incentive Payment (paid to states)
$140:$100	1.4:1	6.5%	$9.10
$160:$100	1.6:1	7.5%	$12.00
$200:$100	2:1	8.%	$16.00
$240:$100	2.4:1	9.0%	$21.60

State Savings: States savings are therefore calculated by adding the states share of AFDC collections plus the incentive payment and subtracting the states share of administrative costs.

Late Child Support Payments: If an absent parent has been delinquent in child support payments and is caught, he/she will be required to pay the backlogged child support amount. Usually this is divided into equal payments and added on to his/her future child support payments. Any revenue collected from the absent parent in arrears is divided between the state and federal government based on state per capita income. States are required to charge a application fee for child support enforcement. This fee can not exceed $25 and many states pay the fee to encourage use of the service.

According to HHS 1988 figures, there were nearly 6 million AFDC CSE cases and 3.5 million non-AFDC cases. According to FNS, 61% of all food stamp households contain children. Of that 61%, 82% are households headed by women. And 73% of the 82% also receive AFDC benefits.

APWA

AMERICAN PUBLIC WELFARE ASSOCIATION

Ruth Massinga, President
A. Sidney Johnson III, Executive Director

April 11, 1990

Honorable Charles F. Hatcher
405 Cannon House Office Building
House of Representatives
Washington, D. C. 20515-1002

Dear Chairman Hatcher:

As you know, the Bush Administration has proposed a change in food stamp program policy that would require, as a condition of eligibility, non-AFDC food stamp households to cooperate with state child support agencies. APWA has consistently supported a strengthened child support enforcement process, and believes every child deserves the support of both parents. We also support a strong network of other family assistance measures that will help enhance family stability and provide those families the best possible opportunity to work toward self-sufficiency.

It is in this context that state human service administrators have carefully examined the Administration's proposal with particular attention to how it will fit with existing programs and policies. Our conclusion is that while this proposal is well-motivated, its implementation would bring on problems that would negate its possible benefits.

Our major concerns can be summarized as follows:

- Mandating cooperation by this group of households could be counterproductive. States' familiarity with the households in question convinces them that many women would be forced to drop out of the food stamp program rather than establish a possible contact with the absent parent. The "good cause" exemptions now used in child support enforcement are not sufficiently flexible to address the needs of many of these food stamp households. A drop in program participation would be detrimental to the children we all wish to help.

- Positive incentives to boost interaction with child support enforcement should be tried first. An array of positive incentives is available that should come much closer to increasing interaction with child support agencies. A major one is the exemption from countable income of the first $50 in support received, a proposal now in both House and Senate food stamp reauthorization legislation. States also will support a requirement to perform specific outreach, referral, and data exchange activities that can encourage greater participation in the support process.

o It is not clear that the Administration's proposal will be cost effective. Many states believe the number of non-AFDC food stamp households not already receiving child support is small, and that the considerable complexities of implementing a mandatory system will cost far more than the benefits saved.

o State child support systems are already at or beyond capacity. These systems are just now beginning to implement the many mandates required by the Family Support Act and should not attempt to take on even a small number of additional cases.

As a result of these concerns we strongly recommend the following:

(1) Implement a set of positive incentives, including the $50 disregard and state outreach, referral, and data exchange activities; and

(2) Study the effectiveness of those incentives, including the costs and benefits of the additional child support cases they generate, before considering more problematic measures such as the Administration's mandatory system would be.

Thank you for your thoughtful consideration of our concerns. If you have questions or need further information from us, please call Larry Goolsby or Bard Shollenberger at 682-0100.

Best regards,

A. Sidney Johnson III
Executive Director

TESTIMONY OF JOHN M. BOUMAN
REGARDING CHILD SUPPORT ENFORCEMENT
FOR FAMILIES RECEIVING FOOD STAMPS
FEBRUARY 28, 1990

My name is John M. Bouman. I am a supervisory attorney with the Legal Assistance Foundation of Chicago ("LAFC"), an agency that provides free legal assistance in civil matters to the poor in Chicago. I have worked for LAFC since 1975, and in that time I have represented thousands of applicants for and recipients of various public benefits, including food stamps, when they have encountered problems with their eligibility or level of assistance. Since 1985 I have been the head of LAFC's unit that specializes in public benefits issues.

My testimony concerns our experiences with the child support enforcement system in Illinois under Title IV-D of the Social Security Act ("IV-D"). Specifically, I will discuss what we have learned as a result of recently concluded litigation concerning IV-D "sanctioning", which is the term for the suspension or termination of cash and medical assistance to AFDC recipients found non-cooperative with IV-D's paternity and support enforcement efforts. (Title IV-A of the Social Security Act provides for cash AFDC benefits. One of the eligibility requirements for AFDC is that the recipient must cooperate with the child support enforcement program, which is run separately under IV-D.) My conclusions are that sanctioning turns a program that is naturally attractive to recipients (it promises more money) into a program that is dangerous to them (it is capable of resulting in financial disaster); sanctioning focuses the agressiveness of the state agency on the recipient rather than on the absent parent and often results in unnecessary humiliation of recipients; sanctioning has wrought great tragedy upon the intended beneficiaries of child support enforcement -- the children (it does the children little good to know that their family's huge cut in income was technically just their mother's portion of the assistance grant); and sanctioning has had no beneficial relationship at all to the rate of actual child support collections. Expansion of child support enforcement sanctioning to recipients of food stamps would serve no useful purpose; to the contrary, it would make it that much harder and less desirable for eligible families to participate in either the food stamps or the child support enforcement programs.

FEATURES OF A SANCTIONING SYSTEM

The recently concluded case of Doston v. Duffy (No. 85 C 2356) was tried in the United States District Court for the Northern District of Illinois in Chicago. The case was brought as a statewide class action in 1985 in response to a growing wave of clients seeking representation by LAFC because their AFDC benefits had been drastically reduced for alleged non-cooperation with the IV-D child support enforcement program. A large amount of information was gathered during the case, and the parties entered into almost 200 separate stipulations of fact. A trial was held, and the court found additional facts in its November 1988 decision. Unless otherwise indicated, all of the facts I will mention today come from the stipulated facts and the court's findings of fact. The following are some of the features of the sanctioning device in Illinois:

1. Caseworkers were empowered to find recipients non-cooperative based upon subjective decisions as to whether recipients were telling all they knew about the identity and whereabouts of the absent parent. The Doston record and decision contain many examples of sanctions imposed when the recipients knew a great deal about the absent parent, but the caseworkers felt they should have known more, or when the child was the result of an extremely short relationship, but the caseworker demanded such information as the father's social security number, place of work or his mother's name. Since child support enforcement sanctions last until the recipient cooperates, sanctions in these types of cases were tragically open-ended; they lasted until the recipient could produce more information, which was often never.

The inquiries in these cases often became very demanding and humiliating. Many recipients were sent out on missions to interrogate persons who might know the absent parent or to hang around in the father's neighborhood, including very dangerous housing projects, or the neighborhood where they had met. Caseworkers empowered to disbelieve recipients could not avoid imposing their own ideas about social relations upon the situation (to paraphrase much of the evidence and testimony: "How could anyone sleep with a man they hardly knew and then bear the child; you are either a shameful person or you are not telling me the truth, probably both").

2. The child support enforcement process consists of a succession of notices and in-person meetings. There is a meeting with IV-D staff to impart information about the absent parent, a meeting with the attorney who will handle the case, court dates, and any follow-ups to any of these meetings. This means that to comply with the program the recipient must receive the notice of the meeting, understand it, arrange child care and transportation, and be in the right place at the right time. Poor people frequently encounter obstacles to all of these actions. Mail delivery is notoriously unreliable in many poor neighborhoods, especially housing projects; the recipient's reading comprehension skills are often not sufficient; notices are sometimes sloppy and unreadable; illness and emergencies occur with regularity; and transportation often breaks down. Moreover, there are substantial difficulties that all people have with finding their way through a crowded courthouse and a confusing high-volume courtroom to be front and center when their name is called. It is essential to a realistic cooperation policy to allow for excused absences from meetings. In Doston this was known as a "valid reasons" for non-cooperation policy.

There were several years in Illinois when there was no valid reasons policy at all. Women were sanctioned for missing meetings when they were in the hospital, when sick babies were rushed to the doctor, and when transportation broke down. Sanctions were imposed on recipients who sat through an entire day in a courtroom but did not hear the case called, or who were directed to the wrong room or incorrectly sent home by courthouse personnel.

When Illinois adopted a valid reasons policy, none of the notices explained it or advised recipients that it existed. The Cook County State's Attorney's office, which handles all of the paternity cases, was not instructed to use the valid reasons policy when recipients failed to appear in court.

HHS has provided little, if any, guidance to states on valid reasons policy. Illinois did not violate any HHS directive by failing to have a valid reasons policy or by failing to inform recipients of the policy when it existed. This type of carelessness in sanctioning could be happening anywhere.

3. Sanctioning caused the Illinois IV-D program to focus not on adjudicating paternity and obtaining support, but upon obtaining "cooperation" from recipients. There were several documented instances of recipients who were sanctioned for failing to provide sufficient information about the absent parent, even though the agency actually located the parent based upon the information the recipient provided. It was the policy to sanction recipients for not appearing in court even if the defendant parent was not in court either, or if the case was continued on the motion of the defendant, or if a child support order was actually in effect. Testimony of IV-D personnel revealed that the policy was to sanction for every instance of non-cooperation, regardless of whether it had any effect on the

outcome of the IV-D process.

4. **There were substantial delays in curing a sanction.** As noted above, sanctions for providing insufficient information were often never-ending. In Cook County, sanctions imposed for missing a court date would often last up to eleven months, with the average being four to six months, simply as a result of a crowded court system that could not offer an earlier continuance. If a case was dismissed as a result of the recipient's non-attendance in court, the delay would be much longer due to the additional tasks and delays associated with filing a new case. If the dismissal was "with prejudice" (meaning without the right to re-file a new case), the sanction would be never-ending.

Sanctions imposed for missing a meeting with IV-D staff would end when the recipient attended a meeting. At best, it would take three weeks to reschedule a meeting, becau recipient had to make the request through her regular AFDC caseworker (the "IV-A" worker), who would forward it to IV-D. When the recipient was finally scheduled for a meeting and attended it, reinstatement of benefits had to wait for the IV-D worker to transmit the news of the recipient's cooperation to the regular caseworker, and then for the regular caseworker to take the necessary steps. This cumbersome system was and is rife with delays. Sanctions in the most routine cases often go on for weeks and months.

5. The notices used to advise recipients of sanctions were confusing, misleading and incomplete. Recipients were not

properly informed of what was happening to their assistance, what they could do to stop it, how they could have a hearing, and what deadlines were involved. They were not told how to cure a sanction. As noted above, they were not informed of the valid reasons policy.

INHERENT SANCTIONING PROBLEMS

The evidence in Doston revealed several inherent problems with sanctioning systems. Based upon expert testimony, the court found that there are inherent biases among social services workers who are middle class that yield negative judgments about clients from lower economic classes. Even among social work practitioners with advanced degrees and strong training in objectivity, the tendency to make negatively biased judgments about clients from lower economic classes was quite strong and was fed by lack of knowledge and understanding about lower class life styles and values. These problems inevitably are more pronounced among public assistance caseworkers, few of whom have advanced training, especially in dealing with the values-charged area of social and sexual relations. A sanctioning system necessarily calls for subjective judgments: about the information provided about the absent parent, about whether an excuse for missing a meeting is true, about whether it is not in the best interests of the child or the woman for them to cooperate in pursuing a support order, about whether the recipient testified properly in court. The tendency to judge, to humiliate, and ultimately to sanction cannot be factored out or regulated away.

A second set of facts that emerged through expert testimony in Doston concerned the fact that a great percentage of the poor minority male population is highly transient, rarely establishing a particular residence. For instance, one incident from the research on this issue was that ten men were found living in a car wash. There are a number of explanations for this phenomenon, but the point for purposes here is that the phenomenon exists. This means that when a poor female states that she did not know the residence of the father of her child at the time of their relationship, and that she does not know it now, she is much more likely to be telling the truth than a middle class caseworker would be likely to know or assume. Not only is it possible that the father never told the woman his address, but it is quite possible that he simply did not have one. This fact also means that child support enforcement efforts will run into some difficult problems unrelated to the cooperation of the recipient that require the focusing of resources on special parent location services.

An additional fact that is an inherent problem with sanctioning was not specifically adjudicated in Doston, but permeated the case because it is simply a part of the poverty landscape. That is the fact that a great proportion of the fathers of the children receiving AFDC are themselves poor. Child support payments from many of these men are impossible. Expending resources on a sanctioning program rather than on location and litigation and program administration in cases where

the father does have the ability to pay is a great waste and causes unnecessary suffering.

THE MAGNITUDE OF THE PROBLEM

There are two contexts in which the problems caused by sanctioning should be understood: that of the individual family, and that of the IV-D program as a whole.

The facts in Doston showed that when a mother and one child were sanctioned, the family's assistance dropped from $250 to $95 per month. For a mother and two children, the drop was from $342 to $187; for a mother and three children, from $386 to $232, and so on. These drops in assistance were automatic; that is, they were based upon standard amounts for certain sized families. For instance, in the first example, the standard payment for a family consisting of one adult and one child was $250, while the standard payment for a family of no adult and one child was $95. (These amounts are now a few dollars higher due to a 1990 general increase in Illinois AFDC payment amounts.) These figures show the financial ruin wrought by sanctioning. It is difficult, if not impossible, to subsist upon the full grant amount. A sanction makes it impossible. An informal survey of family homeless shelters in Chicago in the winter of 1987-88 revealed that about 35% of the women and children in the shelters were there because of financial difficulties brought about by IV-D sanctions. It is a meaningless technicality that the sanction is imposed against the mother's share of the grant and not against the children's. The stark reality is that the children suffer as surely as the mother, and the losses suffered are more grievous (including interrupted schooling and impaired ability to concentrate and learn as two of the less obvious tolls).

The magnitude of sanctioning as a feature of the IV-D program is demonstrated by data we have received since Doston was resolved. After the judge ruled, the parties settled the case. Two provisions of the settlement were that all current sanctions should end, and that all persons sanctioned since 1980 and identifiable as such should receive a notice about certain available relief. Over 7,000 current cases were eligible for reinstatement under the first of these two provisions. This represents the number of cases under sanction at that time, and thus it represents the rough number of cases under sanction at any given time. Under the second provision, over 56,000 notices were sent to class members. This provides us with a sense of how many cases were sanctioned during the 80's in Illinois. The average case includes the mother and two children. Neither of these figures tells how long the sanctions lasted, or how many of them never ended. The clear message is that sanctioning is not simply a largely symbolic tool, used to discipline the occasional incorrigible recipient. Sanctioning was one of the major features of IV-D in Illinois in the 80's.

This should not be understood as only an Illinois problem. As far as we are aware, HHS found no fault with the Illinois sanctioning system and record at any time in the 80's. Thus, the primary federal administrator of the program felt that Illinois was not out of line.

IMPACT ON SUPPORT COLLECTIONS

Support must be collected in a court process, beginning with a paternity adjudication when the child is born out of wedlock. As indicated above, the court system in Cook County is substantially overloaded. In Doston it was stipulated that at any given time there are several thousand child support and paternity cases pending in the State's Attorney's office that have not even been filed in court. There are backlogs in the court system of nine months to a year, and the court will not accept new filings once its docket is filled for an entire year. Against this background, it is difficult to see how sanctioning can have any effect at all on the rate of child support recoveries. Whether or not a mother is sanctioned for missing a meeting with a IV-D worker, her case is no closer to court.

Similarly, the State Parental Locator Service, which is responsible to use the information provided by recipients to track down absent parents, has 50,000-60,000 cases and eight staff. Again, it is difficult to see how sanctioning will do anything to locate any of these parents.

Finally, during the period that Illinois was engaged in this agressive sanctioning program under IV-D, its performance in actually collecting child support payments was lackluster. The staff of the House Ways and Means Committee prepared a report in 1988, assessing the performance of the states during 1987 in five areas: Paternity Establishment Rate; Child Support Collection

Rates; Cost-Effectiveness; Interstate Collections; and Reducing AFDC Costs. Illinois ranked 35th of the 50 states and four territories studied. The performance in Reducing AFDC Costs was "particularly low". Child Support Enforcement: A Report Card, Prepared by the Staff of the House Committee on Ways and Means (October 11, 1988). Statistics compiled by the Children's Defense Fund show that in 1987 a child support payment was made in only 7.4% of Illinois' IV-D cases, which was the 43rd best rate in the country. A Vision for America's Future, Children's Defense Fund, at p. 132 (1989). Clearly, an agressive sanctioning program had no productive effect on the collection of child support. Indeed, it is quite possible that the sanctioning program had the opposite effect by consuming resources that could have been better used to improve the support collection system.

These facts all support the conclusion that what IV-D needs is not sanctions, but resources. Resources are needed in the court system, the parent locator system, and the IV-D agency's collections and accounting departments. Another Illinois class action, Agee v. Duffy, has revealed massive mismanagement of the accounting of the child support collected on behalf of ex-AFDC recipients (there are several other such cases around the country). One of the largest problems is the lack of resources to properly tackle this complicated accounting task. This resource problem afflicts the IV-D program's ability to handle properly child support collections and disbursements for the precise population as to which the proposed amendment would divert resources into a sanctioning program.

CONCLUSIONS

Congress should not adopt a sanctioning policy in the Food Stamp Program for non-cooperation in the child support enforcement process. It is extremely difficult to understand the logic of the proposed amendment once the character of a sanction-driven system is understood. Food stamps are greatly underutilized as it is. Conversely, child support enforcement services are not sufficient to meet effectively the current need. Adding a food stamps sanction for non-cooperation with child support enforcement will inevitably lead to fewer eligible people applying for food stamps. And it will have the effect of accomplishing two harmful results in child support enforcement: it will keep some recipients away from the program who could benefit from it, while it will burden the already overburdened IV-D system with many recipients who will not necessarily benefit from it.

In my experience, one of the main reasons that non-AFDC recipients who are eligible for food stamps do not apply for them is the difficulty of coping with the welfare system. To date, this difficulty has included such things as having to produce a wide range of documentation, the need to appear at the welfare office where long waits and rudeness are common, the failure of the welfare office to provide hours for working people (evenings or weekends), the general frustration and anger generated by seemingly unreasonable rules and agency or recipient errors, and the embarrassment of having to seek assistance in the first place. Mandating child support enforcement cooperation increases the number of meetings and other requirements exponentially. Add to this the requirement that the agency be allowed to pry into the most private aspects of a recipient's life in a judgmental and humiliating context, and a great many more eligible and needy people will stay away from the program.

Child support enforcement has a built-in incentive to cooperate. Child support payments will increase the income of the custodial parent and children. The motive to cooperate is stronger to the extent that the absent parent's income is higher. This means that in cases where the enforcement activity is most likely to do some good, it is most likely that the recipient will cooperate voluntarily.

We have seen that the IV-D program is in desperate need of resources, so that it can work properly for the persons it serves. It does not need to generate more clientele for an already swamped system. The best way to attract participants is not to threaten them, but to create a successful program that gets money for women and children in need and in cooperation with them (rather than in judgment over them). The proposed amendment should create new resources for the IV-D program so that it can rationally expand to reach out for and properly serve more participants. It should maximize the positive incentives for cooperation. It should not adopt sanctioning. Introducing sanctions will go far to defeat the purposes of both the Food

Stamp Program and the child support enforcement program by diverting resources from paternity and support functions to administration of sanctions, and by causing eligible people to avoid both programs.

Thank you for inviting me to testify today and for your consideration of these comments.

John M. Bouman
Legal Assistance Foundation
of Chicago
343 S. Dearborn St., Suite 700
Chicago, IL. 60604
(312) 341-1070

The **Chairman**. Your full statement and presentation here answer most of my questions. I have only one additional question. I heard that some of the schools are facing a reduction in their bonus commodities and that they may be increasing their school lunch prices. I have just heard this in a general fashion. Is this happening?

Mr. **Fersh**. There is anecdotal evidence that this seems to be going on, and in our view it is a very important concern, yet the exact extent of it, how far-reaching it is, its implications, aren't clear.

The **Chairman**. How can we find out?

Mr. **Fersh**. Well, I think probably the best way to proceed is to try to get a study done in short order which would gather the data and perhaps allow the Congress by next year to act on this. We are sympathetic. We think it is important. We think that children's nutritional health is potentially at risk, but we don't think we have the data in, and we do think that the most targeted way to help needy children in this country right now would be to continue to focus on food stamps and TEFAP, which are in fact the most targeted programs in the Government arsenal of food assistance programs.

The **Chairman**. Well, we will try to find a way that we can get the exact information on that.

Dick.

Senator **Lugar**. Mr. Fersh, thank you very much for your testimony. I thought it was a very thoughtful statement, obviously well-prepared and helpful to us. I have no questions, Mr. Chairman.

The **Chairman**. Thank you. Well, I think then we will recess. I wish that all hearings could be this easy, or this agreeable. Thank you.

[Whereupon, at 2:50 p.m., the committee recessed, to reconvene at 9:05 a.m., Wednesday, March 7, 1990, in room SR-332, Russell Senate Office Building.]

[Material submitted for inclusion in the record follows:]

APPENDIX

PREPARED STATEMENT OF JOHN W. HARMAN, DIRECTOR, FOOD AND AGRICULTURE ISSUES, RESOURCES, COMMUNITY, AND ECONOMIC DEVELOPMENT DIVISION, U.S. GENERAL ACCOUNTING OFFICE

VIEWS ON TEMPORARY EMERGENCY FOOD ASSISTANCE PROGRAM AND COMMODITIES FOR SOUP KITCHENS

Mr. Chairman and members of the committee:

We are pleased to submit a statement for the record on information we have gathered on the effectiveness of two programs extended or authorized by the Hunger Prevention Act of 1988—the Department of Agriculture's (USDA) Temporary Emergency Food Assistance Program (TEFAP) and a new program to provide commodities to soup kitchens or food banks. Under the TEFAP program, USDA purchases commodities and provides them, together with commodities from the surplus Federal inventory, to individuals through State and local agencies. USDA also provides USDA-purchased commodities to soup kitchens/food banks through similar agencies. The objective of our work was to obtain the views of as many commodity recipients and Federal, State, and local officials involved with these programs as possible in the limited time available to prepare for this hearing. We obtained their views on (1) the effectiveness of the purchase of commodities; (2) the adequacy of the amounts and types of commodities going to individuals and soup kitchens/food banks and the timeliness of their delivery; and (3) other issues and concerns about the program.

To accomplish our objective, we talked to USDA officials at the Food and Nutrition Service (FNS), the Agricultural Marketing Service, and the Agricultural Stabilization and Conservation Service. At the State level we limited our work to Illinois and Alabama, judgmentally selected to give us a large Northern State with a major urban population and a rural Southern State. Within these States, we discussed the programs with 24 local recipient agencies and 30 individual recipients. Of the 24 agencies, 11 received TEFAP commodities, 4 received soup kitchen commodities, and 9 received both. Because of the limited scope of our work, these views represent only the views of officials interviewed and should not be considered representative of others in Illinois, Alabama, or other States.

In summary, USDA and State officials told us that USDA's management of commodity purchases appears to be working effectively after initial program "start-up" delays, and recipient agency officials said they were generally satisfied with the amounts, types, and delivery schedules of the commodities received. However, State and local officials, as well as individual recipients we interviewed, suggested changes to the programs. Regarding TEFAP, their suggestions included:

—increasing the commodity amounts in some localities to enable all recipients to receive planned allocations of food;

—providing commodities from each of the four basic food groups;

—increasing USDA administrative funding to cover more of the costs incurred by some local agencies administering TEFAP; and

—reviewing the existing paperwork requirements that may be contributing to volunteer attrition at local agencies.

Regarding the Soup Kitchen program, their suggestions included:

—providing more State and local flexibility to determine the best way to use program commodities;

—ensuring that commodity packaging is appropriate for emergency food facilities of various sizes; and

—providing commodities from each of the basic food groups.

BACKGROUND

When TEFAP was initiated in 1983 it was intended to be a one-time release of surplus dairy products to reduce Federal inventories and storage costs and to provide needy individuals with temporary food assistance. Since 1983, the Congress has extended TEFAP periodically to continue the food assistance, and over the years the program has expanded to include other surplus commodities. In fiscal year 1988, USDA distributed 692.1 million pounds of commodities under TEFAP, a 32 percent decrease from the previous year. This decrease reflected reduced availability of surplus commodities, particularly cheese, honey, and rice. TEFAP and other domestic and foreign food aid programs, combined with the declining surpluses, depleted these commodities.

After surpluses available to TEFAP diminished, the Hunger Prevention Act of 1988 authorized USDA for the first time to purchase commodities to increase the amounts and types of food distributed. First, the act extended TEFAP through September 30, 1990, and required the Secretary of Agriculture to spend $120 million annually to purchase, process, and distribute additional TEFAP commodities to States during fiscal years 1989 and 1990. Second, the act authorized the continuation of $50 million annually to help defray costs incurred by States for storing and distributing the commodities to recipient agencies. Third, the act also required the Secretary to spend $40 million each year in fiscal years 1989 and 1990, and $32 million in 1991, to purchase, process, and distribute additional commodities to States for distribution to soup kitchens and food banks that provide meals or food to the homeless and other needy persons.

Officials from FNS (which has overall responsibility for the programs), the Agricultural Stabilization and Conservation Service, and the Agricultural Marketing Service work together to determine the amounts and types of items to be purchased under both programs. Under TEFAP, USDA must make sure that the commodities meet requirements set forth in the act. For example, commodities must be (1) high in nutrient density, (2) easily and safely stored, (3) convenient to use, and (4) desired by recipient agencies. In addition USDA determines whether sufficient quantities of a commodity are available at a reasonable price. For the Soup Kitchen program, USDA told us that they developed the criteria used to select commodities for purchase. These criteria include availability, market price, and feedback from States, local agencies, and individual recipients.

For both programs, most commodities, such as canned vegetables, pork, and juice, are purchased by the Agricultural Marketing Service. Peanut butter is purchased for both programs by the Commodity Credit Corporation, which is administered by the Agricultural Stabilization and Conservation Service. In addition, for TEFAP, the Commodity Credit Corporation also continues to provide surplus commodities—such as butter and flour—from its inventory. (Appendixes I and II provide amounts and types of commodities for TEFAP in fiscal years 1985-90, and for the Soup Kitchen program in fiscal years 1989-90, respectively.)

USDA makes these commodities available to States according to a formula outlined in the act. This formula is based 60 percent on the number of persons in households in the State having incomes below the poverty level and 40 percent on the number of unemployed persons in the State. USDA allocates administrative funds to States on the same basis. States provide commodities from both programs to various recipient agencies which often rely on volunteers to distribute commodities to needy individuals and soup kitchens or food banks.

VIEWS ON TEFAP

According to USDA and State officials who distribute the commodities, the new mandatory purchase requirement appears to be working effectively, although a startup delay occurred in fiscal year 1989, so that States did not receive commodities until the second quarter of the year. USDA officials told us that although the act authorized the purchase requirement in September 1988, funds were not actually available until late October. FNS officials said it took approximately 3 months to determine which and how much of each commodity to purchase. In addition, the agency needed time to invite bidders and accept contractors to process and distribute the new commodities.

According to USDA officials, no delays occurred in fiscal year 1990 with the mandatory procurement process. However, USDA officials stated that delays in authorizing TEFAP until late in any fiscal year may lead to startup delays similar to those that occurred in fiscal year 1989.

In fiscal year 1989, USDA distributed about 21 million pounds of commodities to Illinois and about 10 million pounds to Alabama. Although some recipient agency officials and individual recipients in these States said they were generally satisfied with the amounts and types of commodities USDA provided, others said the program could be improved. Thirteen of 20 local agencies we visited said the amounts of TEFAP commodities they received were not adequate to meet their needs. For instance, five agency officials said they frequently do not have enough commodities to give all recipients the planned allocation per household member. Some said that they juggle the commodities from one distribution site to another or they juggle each individuals' amount in attempts to give people equal amounts of commodities. Others provide the planned allocation on a "first-come, first-served" basis until they run out.

Recipient agency officials and recipients said they were not entirely satisfied with the types of commodities they received because they do not receive food from each of the four basic food groups. For example, 17 of 20 recipient agencies emphasized the desire to have cheese distributed while 15 of 20 emphasized a desire for nonfat dry milk. In addition, 13 of 30 individual recipients expressed disappointment over the lack of cheese. Except for butter, TEFAP does not provide food from the milk and cheese group because, according to USDA officials, they cannot be purchased in sufficient quantities at a reasonable price. Recipient agency officials and individual recipients noted that they appreciated the protein items, such as peanut butter, that replaced the cheese.

Several of the recipients also indicated a desire to have a wider variety of food distributed. For example, seven suggested offering cereal and chicken as well as canned meat, vegetables, and fruits.

State and recipient agency officials indicated that the delivery schedules were generally timely and appropriate for their needs. However, local agency officials raised other issues relating to TEFAP administrative funds and paperwork requirements.

Twelve recipient agencies in Illinois and Alabama said or provided documentation indicating that the administrative funds were not adequate to meet the agencies' costs for operating TEFAP. State officials in Illinois and Alabama agreed that the administrative funds USDA currently provides are not sufficient to cover recipient agencies' operating costs. These officials also told us that they distributed about 80 percent and 95 percent, respectively, of the funds provided by USDA to cover transportation of commodities to recipient agencies, in addition to covering those agencies' handling and storage costs.

Paperwork requirements, which are designed to ensure that only needy individuals receive commodities, may deter some agencies' volunteers from helping to administer the program, according to officials in three local Illinois agencies that we visited. Federal regulations require that each recipient agency collect and submit records to the State of all commodities distributed. These records must include the address of each household receiving commodities; the signature of the household member that receives the commodities; the number of persons in the household; and the date, type, and quantity of commodities received. None of the recipient agencies in Alabama, however, said paperwork requirements deterred volunteers.

Views on the Soup Kitchen Program

USDA is in the second year of implementing provisions of the Hunger Prevention Act of 1988 that mandate purchasing and distributing commodities for soup kitchens and food banks. According to staff at 10 recipient agencies and distribution sites we visited that receive this food, the number of meals being served with soup kitchen commodities has been increasing and reflects a growing need for the program.

As with TEFAP, USDA purchased commodities in fiscal year 1989 after limited startup delays, according to an FNS official, and began distributing the commodities in the third month. USDA distributed fiscal year 1990 soup kitchen commodities to States starting in the first month.

Each State determines how it will allocate its share of the commodities to its recipient agencies, or directly to emergency food providers such as soup kitchens. The soup kitchens vary in size and number of persons served. Food banks—charitable institutions that channel donated food to the hungry—also receive some commodities under this program. Food banks distribute these commodities to different types of emergency food centers, including food pantries that provide bags of groceries to individual recipients.

According to officials from the two FNS regional offices we visited, FNS encourages States to make these commodities available first to soup kitchens and then to offer the remainder to food banks. Alabama State officials said that about 85 percent of its soup kitchen commodities go to food banks, after the State has met the needs of the 13 soup kitchens in the State.

Officials and staff from the recipient agencies we visited that receive soup kitchen commodities generally expressed satisfaction with the amounts and types of commodities they received. Thirteen agencies in Illinois and Alabama said they were satisfied with the commodity amounts and types, while two mentioned they would like to see more variety of commodities offered.

FNS recognizes the need for variety, but purchases commodities on the basis of availability, market price, and local feedback, in conjunction with its own budget constraints. As shown in appendix II, for fiscal year 1990, FNS decided, according to these criteria, to add some items and remove others from the list of items that FNS purchased in fiscal year 1989. Some examples cited by the officials follow:

—Although orange juice was well-received at soup kitchens during fiscal year 1989, FNS did not purchase orange juice in 1990 because a December 1989 freeze in Florida reduced the availability of oranges and increased the price.

—Since apples were readily available at reasonable prices in fiscal year 1990, due to a large harvest, FNS purchased apples and provided apple juice and applesauce to soup kitchens.

—Lentils and grapefruit juice purchased in fiscal year 1989 were no longer purchased in 1990 because local agencies told FNS that recipients did not like these items.

In addition, officials from distribution sites, recipient agencies, the two States, and FNS, told us that they did not experience any problems with the timely delivery of commodities.

The State and local agency officials we interviewed, however, suggested several possible changes in the administration of the soup kitchen program:

First, State officials from Alabama said they should be allowed to provide soup kitchen commodities to agencies that distribute TEFAP commodities to individuals because Alabama has only 13 soup kitchens. An FNS official for the southeast region said that soup kitchen demand is lower in primarily rural States because individuals must travel longer distances to reach soup kitchens, and rural areas have less of an identifiable "homeless" problem than urban areas. He also said that States in that region qualify for a large portion of soup kitchen commodities because the region's poverty and unemployment are higher than in other regions, but the region has few soup kitchens relative to the amount of commodities it can receive. He cited the Mississippi Delta area as one example of an extremely poor area without soup kitchen-type facilities to provide emergency hunger relief.

Second, State and local agency officials told us that smaller food providers sometimes needed some commodities packaged in small containers rather than institutional-size packaging. According to FNS officials, packaging sizes for soup kitchen commodities originally focused on feeding large groups, which FNS perceived to require institutional-size packaging. FNS officials said they have recognized the local need by providing dry beans, peanut butter, and fruit juices in smaller containers in fiscal year 1990. In addition, one recipient agency official told us that fruits and vegetables would be more useful in smaller cans, although FNS officials said they have not received any complaints regarding the packaging size for these commodities.

Third, 13 recipient agencies we visited said commodities should come from the four basic food groups. Two local agency officials in Illinois, however, said this should be done only if USDA is able to continue purchasing a wide variety of commodities rather than a limited variety. In fiscal year 1990, FNS has not provided dairy products or breads and cereals for the soup kitchen program. As discussed earlier, FNS selected the commodities it purchased based on various criteria including but not limited to nutritional value and variety.

Although not related to the new provisions in the Hunger Prevention Act of 1988, we have issued earlier reports on TEFAP. (See appendix III.)

APPENDIX I—AMOUNTS AND TYPES OF TEFAP COMMODITIES FISCAL YEARS 1985–90

	Quantities of commodities in pounds					
	FY 1985	FY 1986	FY 1987	FY 1988	FY 1989	FY 1990 [1]
TEFAP/surplus:						
Butter	119,066,858	70,587,264	67,096,992	66,798,456	63,366,588	33,495,264
Processed cheese	403,236,270	409,980,540	415,170,180	233,935,200	0	0
Cheddar cheese	22,263	0	0	0	0	0
Bulk cheese	39,753,590	0	0	0	0	0
Nonfat dry milk	79,980,080	93,556,448	98,856,824	86,387,280	0	0
Cornmeal	35,425,000	37,842,000	48,053,250	48,584,250	48,590,950	26,609,000
Flour	106,877,600	127,293,800	137,861,500	134,573,500	133,794,200	67,494,000
Honey	69,325,920	78,015,348	92,330,316	44,899,524	28,490,580	23,690,196
Rice	75,874,848	130,675,584	154,719,600	76,950,000	0	0
Total TEFAP/surplus	929,562,429	947,950,984	1,014,088,662	692,089,798	274,224,318	151,288,460
TEFAP/purchase:						
Peanut butter [2]	0	0	0	0	53,894,400	23,000,000
Canned pork [2]	0	0	0	0	41,420,700	15,800,000
Egg mix	0	0	0	0	9,072,000	0
Raisins	0	0	0	0	8,524,800	7,800,000
Vegetable beans, canned	0	0	0	0	27,686,400	23,100,000
Green beans, canned	0	0	0	0	0	14,700,000
Total TEFAP/purchase	0	0	0	0	140,598,300	84,400,000
Total TEFAP—all	929,562,429	947,950,984	1,014,088,662	692,089,798	414,822,618	235,688,460

[1] TEFAP/surplus data is through March 1990, TEFAP/purchase data is through January 1990.

[2] FY 90 figures for canned pork and peanut butter are as of January 1990 only. As of then, USDA has completed purchasing all commodities except these two.

APPENDIX II—AMOUNTS AND TYPES OF SOUP KITCHEN COMMODITIES FISCAL YEARS 1989–90

	Quantities of commodities in pounds	
	FY 1989	FY 1990 [1]
Soup kitchen/purchase:		
Luncheon meat	2,196,000	0
Canned pork [2]	13,254,624	3,600,000
Grapefruit juice	16,822,300	0
Orange juice	24,282,300	0
Canned pears	1,443,000	0
Dry beans	5,160,637	5,000,000
Lentils	3,400,000	0
Green split peas	1,440,000	0
Dehydrated potatoes	6,540,432	0
Sweet potatoes	5,236,425	3,800,000
Canned peaches	0	5,800,000
Canned corn	0	10,700,000
Peanut butter [2]	0	2,700,000
Canned plums	0	2,300,000
Canned apple juice	0	15,100,000
Canned applesauce	0	16,200,000
Total—soup kitchen	79,775,718	65,200,000

[1] Soup kitchen data is through January 1990.

[2] FY 90 figures for canned pork and peanut butter are as of January 1990 only. As of then, USDA had completed purchasing all commodities except these two.

APPENDIX III—PAST GAO REPORTS RELATING TO THE TEMPORARY EMERGENCY FOOD ASSISTANCE PROGRAM

Federally Owned Dairy Products: Inventories and Distribution, Fiscal Years 1982–88 (GAO/RCED-88-108FS, Feb. 23, 1988).

Surplus Commodities: Temporary Emergency Food Assistance Program's Operations and Continuance (GAO/RCED-88-11, Oct. 19, 1987).

Food Inventories: Inventory Management of Federally Owned and Donated Surplus Foods (GAO/RCED-86-11, Dec. 5, 1985).

Government-Owned Surplus Dairy Products Held in Inventory (GAO/RCED-85-43, Jan. 7, 1985).

Improved Administration of Special Surplus Dairy Product Distribution Program Needed (GAO/RCED-84-58, Mar. 14, 1984).

Government-Owned Surplus Dairy Products Held in Inventory (GAO/RCED-84-72, Dec. 20, 1983).

PREPARATION FOR THE 1990 FARM BILL

Dairy

WEDNESDAY, MARCH 7, 1990

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The committee met, pursuant to notice, at 9:05 a.m., in room SR-332, Russell Senate Office Building, Hon. Patrick J. Leahy (chairman of the committee) presiding.

Present or submitting a statement: Senators Leahy, Conrad, Daschle, Kerrey, Cochran, Boschwitz, McConnell, Bond, and Gorton.

Also present: Senator Kohl.

STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT

The CHAIRMAN. The committee will be in order.

I want to welcome you here, and for anybody who may have noticed the gavel, this was made by the Enosburg, Vermont High School for me. It was presented to me last weekend up in Vermont. I was talking with one of our dairy co-ops, in fact, one of the best co-ops in the whole Northeast, St. Alban's Co-op, and they presented this to me. They said that they understood that there may be some difficult moments in the farm bill, and that I may need some help as chairman, and they had seen the normal gavel that we have, and they did not think that was quite enough. And so they sent this along. I like to think of it as the agricultural equivalent of the MX missile. It is here only for its deterrent effect, knowing, of course, that we will be able to reach quick and complete agreement on the dairy part of the farm bill.

But I do want to welcome everybody here for the hearing this morning on proposals for the dairy program in the 1990 farm bill.

We all know that dairy farming is hard work. Every day of every year, whether it is in the snows of Vermont or Minnesota or in the heat of the Mississippi Delta, the milking must be done.

If there is to be a next generation of dairy farmers in Vermont, in Minnesota, or in Mississippi or anywhere else, farm families need to know that they can continue to make a decent living on the farm.

What does the administration have to say to these farm families? As far as I can tell, they are following the castor oil school of agriculture policy. They say, take two very bitter pills of dollar cuts in the price support level, and then those farmers who are left can see a price increase. That is a policy of pain. That is not an agricultural policy.

The challenge before this committee is to protect dairy farm income, respond to the market, and yet meet our budget pressures.

My own commitment on dairy is clear. I believe that we need a viable dairy industry in this country, and we need it in all parts of the country.

This should be in the interest of the administration, too. In fact, I stand ready to work, in true bipartisanship, to offer hope to our Nation's dairy farmers.

And that must mean more than just offering one price cut after another. Frankly, I am curious about exactly how low the administration would let the price support go before they look at supply control options. I look forward to hearing Dr. Gardner's answer on that question. I would ask Dr. Gardner to be more forthcoming in his answers than he was to Senator Pryor's subcommittee.

I also look forward to hearing from the producers' panel. I congratulate the dairy industry for working so hard on their proposal. There may not be complete agreement on their plan, but I see that over 75 percent of National Milk Producers board voted in favor of it.

Finally, I know that Senator Boschwitz shares my concerns that the dairy industry expand their markets. We need better consumer education and direct advertising to build up demand for milk products.

It will take strong markets, as well as fair and farsighted policy to prepare the dairy industry for the 21st century. Today we can begin that task.

Rudy, you feel free to say anything, anything you want this morning.

Senator **Boschwitz**. Should I not mention milk marketing orders, Mr. Chairman. [Laughter.]

The **Chairman**. You can mention them.

Senator **Boschwitz**. I think I may let my friend—I see that Senator Kohl from Wisconsin is here, who is not a member of our committee, but we certainly welcome him. I do. I do not know about you, Mr. Chairman. [Laughter.]

We, as a matter of fact, had a little conversation yesterday with the Secretary about milk marketing orders down there and encouraging him to look administratively at that question. I hope that some of our witnesses will address that this morning. It is true that I am very much a proponent of increasing consumption. If you like, I certainly would recommend to Mr. Gardner what he should say about various quota type of plans, and that you mentioned in your opening statement. But I look forward to this hearing, and I know we have time constraints because of the joint session.

The **Chairman**. We Italian Americans have to be there, too.

Senator **Boschwitz**. So those are all my remarks. I see many of my friends on the witness list, and it is a long one. So we ought to get going.

The **Chairman**. Senator Gorton. I am sorry. You were here.

Senator **Gorton**. I have a brief opening statement. I will just simply put in the record. I would like to hear the witnesses.

The Chairman. Thank you.

[The prepared statement of Senator Gorton follows:]

Prepared Statement of Hon. Slade Gorton, a U.S. Senator From Washington

Mr. Chairman, I appreciate the opportunity to discuss the dairy title of the 1990 farm bill. In Washington State, dairy ranks second among principal commodities in total value of production. In 1988, this figure totaled $496 million. Additionally, Washington ranked among the Nation's leaders in production per cow. Clearly, the dairy industry, both as a supplier of an essential commodity and as employer and contributor to the State's economy, plays a significant role.

I believe most members of the dairy community are satisfied with the effect the 1985 farm bill has had on the dairy industry. As my colleagues on the committee recall, in 1985 there was a substantial supply-demand imbalance, as substantially more milk was being produced than consumed. The 1985 Food Security Act reversed this trend. As a result, competition for milk supplies has increased and raised the current producer prices above the Government support level.

Although the issues of concern within the dairy program have been altered since 1985 as a result of the act, the goals of the 1990 farm bill are the same as those in 1985; to achieve market balance and price stability. Our success in achieving those objectives will be determined during debate on issues such as the dairy support program, the method for calculating surplus purchases by the Commodity Credit Corporation, and supply management techniques. I must also stress the importance of writing this farm bill independent of the GATT negotiations.

Mr. Chairman, I look forward to working with you and the other members of this committee on the dairy program.

The Chairman. Senator Kohl is here as our guest, and I did not know whether you also had a statement you wish to make, Senator.

Senator Kohl. I do. I will just take 3 minutes, and I will make it as quick as I can, Mr. Chairman.

The Chairman. Please, go ahead.

STATEMENT OF HON. HERBERT H. KOHL, A U.S. SENATOR FROM WISCONSIN

Senator Kohl. Mr. Chairman, members of the committee, I appreciate this opportunity to join you this morning to talk about the dairy program which is a program of great importance to the 36,000 dairy farmers in my State.

I want to especially commend you, Mr. Chairman, for your continued commitment to this program. Those of us with an interest in dairy are well served by your chairmanship of this committee.

In the past 2 months, the dairy industry has faced a rude shock: from a record high in December, the Minnesota-Wisconsin price has fallen precipitously over the past 2 months, down more than $2.50 a hundredweight. Dairy economists expect this fall to continue throughout this year. This fall in price underscores the need for this committee to develop a dairy title for the 1990 farm bill that will effectively protect the income of dairy producers.

I would like to say at the outset that the proposal suggested by the administration will not do that. A proposal that would result in a support price for milk of less than $8 by 1995, as the administration's proposal would, will only serve to put more daily farmers out of work. I cannot support such a proposal, and I hope members of this committee will not, either.

Last October, I introduced a bill, S. 1776,[9] that I believe is a more viable option for the dairy title in the farm bill, and I hope this committee will consider. Let me just take a minute to highlight parts of it.

First, the bill uses the price support as a means of providing price stability. It does so by adjusting the price support annually by an amount equal to 50 percent of the change in the all-milk price over the past 2 years. This would allow the price support to rise in years when prices are strong, and minimizes the drop when prices decline.

Second, the bill would require a standby supply management program in those years when CCC purchases exceed 4 percent of total commercial use. The type of supply management program would be developed by an elected producer board. This would allow dairy producers to choose their own program, be it a two-tiered system, a diversion program, a whole herd buyout or a target deficiency program. If producers are going to be asked to share in the costs of a supply management program, I believe it only fair that they be allowed to determine that type of program.

Mr. Chairman, I cannot underscore enough the need for a standby supply management program in the farm bill. We simply cannot continue to use price to keep the dairy program in balance.

For this reason, I am very pleased with the proposal we have before us from the National Milk Producers Federation. Given the diversity of its membership, I think that the Federation has done an admirable job in developing a program that can serve the needs of the dairy industry as a whole. Of course, I am particularly pleased with it since it is so similar to the approach I have suggested in my bill.

Mr. Chairman, I do not want to take much more of the committee's time, so let me close with a couple of brief thoughts on an issue of particular concern to the Upper Midwest, namely, milk market orders.

I was heartened by a meeting that I, Senator Boschwitz, and Senator Kasten had yesterday with Secretary Yeutter. He indicated that he is likely to call a national hearing on reform of milk market orders. While long overdue, this is good news.

A national hearing, or a series of hearings, could accomplish administratively many of the legislative remedies that I and my colleagues from the Upper Midwest have suggested. I would just put this committee on notice that, should the Secretary decide not to call a hearing, or if the issues that our dairy producers care deeply about—the structure of Class I differentials and the movement of reconstituted milk—are not on table at any such hearing, I will continue to press for legislative changes in milk and market orders.

If legislative changes are necessary, I would like to work with members of this committee in making them in a way that does not jeopardize the income of any dairy producer—be it a producer in Vermont or in Georgia or in Texas. And I hope likewise that members of this committee will help in eliminating the inequities inherent in the current system—inequities that unduly penalize producers in the Upper Midwest.

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[9] S. 1776, to amend the Agricultural Act of 1949 to establish a dairy price support and supply management program, and for other purposes. (Dairy Equity Act of 1989.) Some provisions included in S. 2830, Food, Agriculture, Conservation, and Trade Act of 1990.

Mr. Chairman, I appreciate again the opportunity to be with you today, and I look forward to working with you and members of this committee in developing a strong and equitable dairy title for the 1990 farm bill.

The **Chairman**. Thank you very much, Senator Kohl, and we appreciate you being here. We call on Dr. Bruce Gardner, the Assistant Secretary for Economics at the Department of Agriculture. Dr. Gardner, why do you not just take a seat right down there.

Senator **Boschwitz**. Way down there?

The **Chairman**. I do not know how many others are coming.

Mr. **Gardner**. Well out of reach.

The **Chairman**. Well, that depends upon the answers to the questions, doctor. Feel free to go ahead and give us your statement.

STATEMENT OF BRUCE L. GARDNER, ASSISTANT SECRETARY FOR ECONOMICS, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC

Mr. **Gardner**. Thank you, Mr. Chairman, members of the committee. I appreciate the opportunity to be here to testify on dairy in the 1990 farm bill. I would like to have my written statement placed in the record.

The **Chairman**. Without objection, so ordered.

Mr. **Gardner**. Mr. Chairman, and just give a brief summary of what is in the written testimony orally.

LET ME LIST A FEW FACTS ABOUT RECENT DAIRY HISTORY AND USE THAT AS A LEAD-IN TO SUMMARIZE OUR 1990 FARM BILL PROPOSALS

Let me list a few facts about recent dairy history and use that as a lead-in to summarize our 1990 farm bill proposals. First, since 1970 the dairy farmer has been on a policy roller coaster with support prices up in the 1970's, but then down again in the 1980's. Unlike the crops where the economic situation often changes dramatically from year to year, the economics of dairy farming had tended to evolve more slowly. It took awhile to get production pumped up in the 1970's, and once this happened in the 1980's, we were already in the thick of surpluses.

Then it proved equally difficult and much more painful to get the surpluses worked down. Currently, we have attained a reasonably comfortable economic and policy equilibrium in dairying, at least by the standards of recent years. Farm cash receipts are expected to be up to about $19 billion this marketing year with milk prices the highest that they have been for awhile, and yet Government milk support costs are expected to be in the neighborhood of $500 to $600 million, down from over $2 billion annually in the mid-1980's. Even bST does not now look to be as disruptive a factor as had been thought possible. We still believe that bST has promise for substantial gains, perhaps a yield increase of 1,800 pounds or so per cow annually with more feed and management required, but still resulting in decreases in the cost of producing milk of something like 6 to 7 percent.

Of course, in a competitive market, the price of milk is going to fall as costs fall. Nonetheless bST will be beneficial to dairy farmers and helping to keep dairy products competitively priced relative to other foods and to keep U.S. dairy products competitive in an international context.

OUR DAIRY PROPOSALS AS OUTLINED IN THE GREEN BOOK ARE BASICALLY TO FINE-TUNE THE CURRENT PROGRAMS

Now turning to the policy in the "Green Book," our dairy proposals as outlined in the Green Book are basically to fine-tune the current programs.

PRICE SUPPORTS

With respect to price supports, this involves giving the Secretary of Agriculture discretion in setting support prices, so as to be able to control the level of CCC purchases more precisely.

MARKETING ORDERS

With respect to marketing orders, we propose several housekeeping or technical matters. More substantively important, maybe changes in marketing orders, notably Class I price differentials between orders basing points for these differentials and the regulation of reconstituted milk.

We do not propose legislation on these issues, but we are seriously considering using the Secretary's authority to call national hearings to receive industry proposals on them.

Finally, with respect to export programs——

The **Chairman**. Is this the same hearing—you say you are seriously considering it, but Senator Kohl apparently understood the Secretary to say he was going to call a hearing.

Senator **Kohl**. No. I said that——

The **Chairman**. No. Oh, I misunderstood you.

Senator **Kohl**. I said there is a good chance that he will. I did not say that.

The **Chairman**. Good chance. I am sorry. Go ahead, Dr. Gardner.

Senator **Boschwitz**. May I have the gavel?

Mr. **Gardner**. Finally, with respect to export——

The **Chairman**. No. [Laughter.]

Senator **Boschwitz**. It is a matter of self-defense. Pardon me, Dr. Gardner.

Mr. **Gardner**. OK. We recommend termination of the Dairy Export Incentive Program or DEIP because it duplicates existing CCC authority, but has been more cumbersome to use.

So that concludes my summary, and I would be pleased to respond to questions.

The **Chairman**. Thank you. I have a number of questions, but I am not going to ask them until I get that gavel back away from Senator Boschwitz because I am afraid of what he might do with it.

Let me ask you a number of questions because I asked Secretary Yeutter several weeks ago how far milk prices were going to drop under the administration's proposal. We have yet to get an answer and sooner or later we are going to have to have one. So I am going to ask you about how far our milk price supports would drop under your proposal.

I do not want to have it qualified with, "it depends upon the markets" or "determined by the formula," or "the Secretary would have considerable discretion." You have specific analyses on these proposals within the Department. That is what my sources in the Department tell me. So let me ask you this. Where do you think the support price would be under this proposal on January 1, 1991?

Mr. **Gardner**. Support price on January 1, 1991?

The **Chairman**. Yes.

Mr. **Gardner**. You mean for the next marketing year after this one?

The **Chairman**. Yes. Under your proposal. I mean you have already developed analysis of this in the Department so——

Mr. **Gardner**. Yes. Again, let us see, if we go through this year with——

The **Chairman**. What does your analysis show the support price——

Mr. **Gardner**. No, no. Wait.

The **Chairman** [continuing]. Will be on January 1, 1991?

Mr. **Gardner**. Well, first of all, our analysis does not show where the support price is going to be in 1991. This is going to be if the legislation is implemented the way we would like it, there will be a Secretarial discretion, and we have not said what he will choose to——

The **Chairman**. Well, no. When you were——

Mr. **Gardner** [continuing]. Change the support price at.

The **Chairman**. When you put together this proposal within your Department, you made an analysis assuming that the proposal was passed where you feel the support price would be. You have that analysis. Now just tell us what it shows. January 1, 1991?

Mr. **Gardner**. All right. It does not show anything different from our Presidential policy baseline. We do not have a separate analysis for the——

The **Chairman**. OK. Tell me what the support price would be under your proposal on January 1, 1991.

Mr. **Gardner**. Well, I can tell you this. It will either be, most likely, assuming things come out as we see them now $10.10 or $9.60.

The **Chairman**. On January 1, 1992, what will it be?

Mr. **Gardner**. Again, now we are getting much more conjectural about where the markets are going to go, but I would guess between, perhaps $9.60 would be the best guess. It could be $9.10. Or there could be, of course, other adjustments. But I really do not want to make any firm——

The **Chairman**. What about 1993.

Mr. **Gardner** [continuing]. Prediction for this far out because anything could happen by then.

The **Chairman**. No, no, no, no, wait a minute. Now that is not fair, Dr. Gardner.

Mr. **Gardner**. Well, it is fair.

The **Chairman**. I mean you are up here proposing a 5-year farm bill. You have told us you want a 5-year farm bill. And we have had all these wonderful goals, but nobody will give us any numbers, and it is kind of hard to have the administration say we want this farm bill. We do not want to give you any numbers. I mean you guys work out the numbers. We will talk policy. That does not quite work.

Mr. GARDNER. Well, let me say, though——

The CHAIRMAN. Let me tell you what it looks like to us. You have 1991, 1992, 1993, 1994, and 1995 under this 5-year farm bill. At some point you must be making some decisions.

Mr. GARDNER. Yes.

The CHAIRMAN. About where you think it will be, for example, on January 1, 1995. I mean you have to make those projections.

Mr. GARDNER. That is right.

The CHAIRMAN. And what do you think it will be?

Mr. GARDNER. I have no idea what it will be by 1995, and I think you are missing the essence of what the proposal does which is very similar to what current law does. It involves the annual determination of a support price based on how the markets are evolving at the time. And I do not mind saying somewhat conjecturally where we would be in the next year or even 2 years, but when you start talking 3, 4, or 5 years down the road.

The CHAIRMAN. OK. Give me 2 years from now. Give me 2 years from now. What is your best judgment of where we will be?

Mr. GARDNER. About where we are now. Possibly slightly lower.

The CHAIRMAN. Which is?

Senator GORTON. Perhaps $10.10 or $9.60, let us say.

The CHAIRMAN. Because under your——

Mr. GARDNER. Again, you are talking about 2 years from now. We are getting somewhere——

The CHAIRMAN. Under your proposal, it is also possible that we could be at $9.10 on January 1, 1991.

Mr. GARDNER. It is possible.

The CHAIRMAN. $8.10 in 1992; is that correct?

Mr. GARDNER. Of course, it's possible because that——

The CHAIRMAN. And $7.10 in 1993.

Mr. GARDNER. Well, now we are getting awfully conjectural. I very much——

The CHAIRMAN. No, but under the proposal——

Mr. GARDNER [continuing]. Be surprised if we got there.

The CHAIRMAN. Under the proposal it is possible; is it not?

Mr. GARDNER. Of course, under the proposal you can have many results.

The CHAIRMAN. Or $6.10, $6.10 in 1994. I just want to make sure that we understand what is possible under it.

Mr. GARDNER. Well, the proposal——

The CHAIRMAN. And nobody said it was going to happen, but it could be possible to have it at $6.10 in 1994.

Mr. GARDNER. The proposal says that——

The CHAIRMAN. Could it or could it not be possible to have it at $6.10 in 1994?

Senator BOSCHWITZ. It is not realistic, Mr. Chairman.

Mr. GARDNER. Yes.

The CHAIRMAN. Well, a lot of things we are told are not realistic, but is that possible?

Mr. **GARDNER**. Well, of course, it is not realistic. It is technically possible because this bill——

The **CHAIRMAN**. In fact, technically possible to be $5.10 in 1995, technically possible?

Mr. **GARDNER**. It is technically possible it could be much higher, too, and it is much more likely that it would be higher than that.

The **CHAIRMAN**. I grant you it is possible to be higher than $5.10 in 1995, but——

Mr. **GARDNER**. No, I mean it is higher than it is now.

The **CHAIRMAN**. And there would not be any dairy farms left anyway so whatever we would be paying on the few left to match what we would be paying for the imports of dairy products to supply our consumers would probably be fairly high.

Mr. **GARDNER**. Yes, but Mr. Chairman, I do not understand why you want to talk about price supports of $7, $6, or $5. I mean it is just not in the cards.

The **CHAIRMAN**. Probably because I am having a little difficulty getting numbers from the administration on the 5-year farm bill. Let me give you another example:

We asked the Secretary a month ago—I said it was several weeks ago, I checked the date. It was exactly 1 month ago to provide us with long-term projection of milk prices. And we asked that analysis both with and without bST, assuming one projection if bST was used; the second one if it was not. And he told us that the committee would be provided with that analysis. Do you know if that analysis is completed?

Mr. **GARDNER**. It is almost completed, and we are going to get some results to you on that very soon, and we have——

The **CHAIRMAN**. What is very soon?

Mr. **GARDNER**. I would say within 10 days.

The **CHAIRMAN**. I would appreciate that.

[The response from USDA was subsequently supplied for the record and follows:]

SENATOR LEAHY'S QUESTION ON EFFECTS OF bST

Question. What effects would the use of bST in the U.S. dairy industry have on milk markets, particularly on the price of milk?

Answer. The market effects of bST depend on how much the farmer's costs of producing milk are reduced, the output response to this cost decrease, and the price effects of the additional output that enter the market for dairy products.

Current field trials of bST will provide more definitive information on the yield per cow and cost effects of bST. Meanwhile, the Economic Research Service (ERS) estimates based on information available to date indicate that on average a cow produces 12 percent more milk with bST. However, it is necessary to feed more to get more milk, and the bST itself is costly, so costs per hundredweight of milk fall by less than 12 percent. The current ERS estimate of costs with and without bST are shown in table 1. Using a bST cost of 44 cents, the total cash cost of producing milk is reduced from $10.19 to $9.93 per cwt (based on 1988 input prices) or about 2½ percent. Fixed capital and owner-supplied input costs also fall, but the amount of the decline is even less well known. We use an estimated decline of 40 cents per hundredweight. But both the cash and fixed cost reductions apply only to cows receiving bST injections. It is expected that first and some second lactation cows would not use bST, and that "full adoption" would therefore mean that only about two-thirds of milk produced would come from bST-treated cows. Consequently, the average cost of milk produced would decline by about 3 percent when bST is fully adopted by the U.S. dairy industry.

The output effect depends on how rapidly farmers adopt bST and how many ultimately use it. Because the more recent information suggests less dramatic cost decreases than were prevalent in the first flush of enthusiasm about bST, we now expect less rapid adoption than earlier projections indicated. For the sake of considering the maximum effect of bST, suppose that full adoption were to occur by the year 2000. The direct output effect would be about 8 percent above the no-bST level because of the one-third of cows not using bST under full adoption. Moreover, cow numbers will be reduced. The ultimate supply-demand equilibrium depends on the supply and demand elasticities for milk—the output and price effects will be simultaneously determined—and is expected to involve substantially less than an 8 percent output increase.

Econometric evidence suggests that each 1 percent increase in price implies an increase in output of about 0.5 per cwt, i.e., the supply elasticity for milk is about 0.5 (although some long run supply elasticity estimates are higher) on the demand side, a 1 percent increase in price reduces sales by 0.2 percent, i.e., the elasticity of demand for all milk is about −0.2. Extrapolating for purposes of comparison the price of all milk in the current law baseline in the President's budget (which assumes adoption of bST) to the year 2000 suggests an all-milk price with bST of about $12.50 per cwt. This is, of course, a very conjectural figure and is really only useful as a point of comparison between the bST and no-bST scenarios. A 3 percent upward supply shift with no bST, and the elasticities assumed, indicates a market-clearing price of $12.78 with no bST.

The preceding conclusions assume that the price support level is adjusted so as to allow the market to clear at the price that equates anticipated supply and demand (including 5 billion pounds of surplus removals).

The cost and price effects as estimated here seem very small considering the hoopla that has surrounded the subject of bST. However, it should be recalled that over the last 30 years the price of milk at the farm level has decreased by about one-half of 1 percent annually in real terms. This trend decline reflects the changes in concentrate feeding, genetics, and milking technology that have occurred in this technically dynamic period. The estimate given here for bST says that the full adoption of bST would have about the same effects on the dairy economy as 5 years of previous post-war change in dairy technology.

TABLE 1.—COST OF PRODUCING MILK WITH AND WITHOUT bST [1]

	Dollars per cwt	
	No bST	bST
Costs:		
bST	[2] NA	$0.33–.66 [3]
Concentrates and byproducts	$3.61	3.58
Forages [4]	1.58	1.38
Other cash variable	2.82	2.59
Total cash variable	8.01	7.88–8.21
Total cash fixed	2.18	1.94
Total cash	10.19	9.82–10.15

[1] Based on 1988 budgets and 12 percent lactation response to bST.

[2] Not available.

[3] Based on monthly dosage cost of $7.00–$14.00.

[4] Adjusted to remove drought effects.

The **Chairman**. How low in your estimation is too low on the support price to keep a viable dairy industry going in this country?

Mr. **Gardner**. Well, I think the support prices have to be considered in terms of the cost of producing milk, and the prices that farmers have to receive in order to supply the milk we need. And one of the unknowns is what is going to happen to the cost of producing milk in the future. But that is——

The **Chairman**. But there are certain costs that you also project. I mean you have to in dealing with the farm bill and dealing with everything else, you have to assume certain costs. You are determining cost of the price of feed.

Mr. **Gardner**. Right.

The **Chairman**. And so on because you have to do that if not for the dairy industry, you have to do that for all the other parts of the farm bill. So you must have some sense——

Mr. **Gardner**. Yes.

The **Chairman** [continuing]. At least in the foreseeable future of what would be too low to sustain a viable dairy industry, diversified geographically in this country; don't you?

Mr. **Gardner**. I could give you a judgment.

The **Chairman**. Go ahead. Give me one.

Mr. **Gardner**. I would say over the next 4 or 5 years, you would want to see prices in the neighborhood of $10 to $11 a hundredweight to be sustainable. Now it would be nice to have prices stay where they are today, but I think you need that sort of level as the all-milk price.

The **Chairman**. If the price support starts going below that, are there other things that the administration would consider like either a supply management or production management of some sort rather than simply the price cut?

Mr. **Gardner**. Of course, supply management would be considered if we got into a crisis situation like we did before, but that would be only as a very last resort. And may I say that when I say the all-milk price being $10 to $11, of course that does not mean that the manufacturing price will be $10 to $11, perhaps a dollar lower.

The **Chairman**. What about something like a two-tier system? Have you considered those, or does the administration have any support for such an idea?

Mr. **Gardner**. We have considered them, but I do not know of anyone who supports them in the administration. I do not support them. I think that a two-tier system is worse really than an emergency kind of supply control just because you are going to institutionalize some sort of licensing or basing of milk that has not worked very well, we think, in other commodities and is really anticompetitive, antiproduction oriented, antimarket oriented, and we would not like it.

The **Chairman**. I will get back to that, but I want to give Senator Boschwitz his few minutes.

Senator **Boschwitz**. I thank the chairman. I was just noting that we have only one witness on the schedule this morning who is going to talk about the demand side, who is going to talk about how to increase the demand for the product. All others will talk about, including most of my colleagues, about how to control supply. I think that that is going at it the wrong way. Even when my farmers were getting $15, they had people running around saying, yes, but it is going to be $8, or $7, now $5 a hundredweight.

I agree with the Secretary's approach that, Mr. Gardner, do not come up here and tell him how low the price is going to get, do not give them too many numbers. Let us figure out first which way the dairy program could go because with all due respect to all my friends on this committee that the Secretary realizes that if he said that there was going to be a lowering of the target prices, which is what some here wanted him to say, that that would be the entire conversation about his bill.

We have to figure out what the proper policy is for not only dairy but other items in agriculture, and just as you cannot project what prices are going to be next January or the January after that, or 1995. Nobody projected the prices were going to go as high as they did this year either. But the same people who were saying that the price is going to be somewhere around rock bottom were saying that it was going to be somewhere around rock bottom years ago. As long as I have been on this committee, there has always been doom and gloom. I suggest that we substitute for that doom and gloom a little marketing, and that we sell the product, which in my judgment is very salable. It has come down in consumption, the fluid usage, by 20 percent in the last 20 years. It used to be the number one product. Now it is number four, five or six. So that I think it is a very hard thing to know exactly what to do.

But I certainly agree with you that we should not begin to allow the Government to come into the dairy industry entirely and through some kind of a quota plan, two-tier price plan or other plans that are simply going to immerse the dairy industry into the arms of the Government. That in my judgment will not be very satisfying for the producers or for the industry as a whole.

I think that the industry is going to continue to be challenged, whether it is with new technology or with new feeds or with new other things. They are getting more productive. It is my hope that worldwide that some of the barriers to trade are removed and I think that we will compete very well. We may not compete with absolutely every producer in the world, but certainly far and away the majority we will find ourselves competitive with them. I have no questions, Mr. Chairman. And I am concerned about the time with all the witnesses we have.

Senator CONRAD [presiding]. Who is next?

Senator BOSCHWITZ. What happened to the chairman? [Laughter.]

Are you going to use——

Senator CONRAD. As soon as you started talking——

Senator BOSCHWITZ. Well, normally the lights go out when I start. But are you going to use that big gavel?

Senator KOHL. Could I ask a question?

Senator BOSCHWITZ. Sure.

Senator CONRAD. Go ahead.

Senator KOHL. I will just ask one or two quick questions.

Dr. Gardner, with the conceivable price support drops that your proposal envisions and no encouragement for supply management programs, you must have some idea about the numbers of farmers that will go out of business. Are you prepared to talk about that or speculate about that or philosophize about what the administration's position is on that sort of a demise?

Mr. GARDNER. Well, first, let me say something about the administration's dairy support price. I keep hearing about how prices would decline under the administration's proposal, but this is no different from current law. That is, we are not proposing changing the way we go about setting dairy support prices from what we are doing in the 1985 act. We are giving a little more flexibility to the Secretary, but the basic structure of how the price support is going to be determined is still the same. So I do not want to leave the impression that potential reductions in dairy support prices are something that the Secretary of Agriculture has cooked up newly for us.

Senator **Kohl**. I guess my fear on that is, and just to be honest with you, is that the effect of this program will be that, for example, in my State, 36,000 dairy farmers today, which is down from where it was 10 years ago, 10 years from now might be 25,000 dairy farmers. And I would like to hear you say that that would be unacceptable.

Mr. **Gardner**. That would be unacceptable.

Senator **Kohl**. So that sort of a drop in dairy farmers in my State and across the country or anything approaching it would not be acceptable in terms of a policy? That, in fact, if that would occur, as it would occur, or before it would occur, your policy would be altered?

Mr. **Gardner**. I am not sure what policy could do to keep large numbers of dairy farmers in the business if conditions are forcing them out. Again, it is not an acceptable situation. I think policy should do everything possible to prevent that from happening.

Senator **Kohl**. Are we moving, to ask it in another way, are we moving in this country to a situation where with the differentials across the country and the development of these marketing, these milk factories or large farms which are highly mechanized in other parts of the country, supported in part by the differential, that the family farmer is going to be hard-put to continue to exist with the way in which our farm policy has evolved and is apparently continuing to evolve in this country? What is your opinion?

Mr. **Gardner**. My impression of the data we have on cost of production on different sizes of farms is that the family farm in Wisconsin, say, is an efficient producing unit and can compete with even the large milk factories that you see in other parts of the country.

The **Chairman** [presiding]. Senator Bond.

STATEMENT OF HON. CHRISTOPHER S. "KIT" BOND, A U.S. SENATOR FROM MISSOURI

Senator **Bond**. Thank you very much.

Mr. Chairman, it is a pleasure to join you and to have the opportunity to listen to this distinguished panel today on the issues of the dairy program. I have a statement that I would like to submit for the record.

I do want to note that we are very proud that our State of Missouri currently ranks 11th in milk production nationwide, and we have 228,000 cows; 8,500 dairy farmers; and we are pleased that Mid-America Dairy has its headquarters located in Springfield, Missouri. It is clearly very important to us.

At the farm bill hearings, meetings, and gatherings that we have had around the State we have found that milk producers are saying they see a real need to manage their inventory and the need to bring current dairy policy in line with consumer demands, that point that Senator Boschwitz raised earlier.

We have seen the results of the Dairy Termination Program which removed 12.3 billion pounds of milk over an 18-month period. Milk production declined but we have also seen milk production creep back up to preprogram levels.

We know that the dairy industry has reached "almost unanimous" agreement on their recommendations for provisions for the 1990 farm bill, and we will look forward to hearing discussions of those as well as the administration proposals.

I believe that the dairy industry has enjoyed a great success in the marketplace, and today more than ever we should give our dairy farmers an opportunity to compete and to compete profitably in the world market.

We must be in position to take advantage of new technologies and react quickly to new market opportunities.

Having said that, Mr. Chairman, I submit my prepared statement for the record.

[The prepared statement of Senator Bond follows:]

PREPARED STATEMENT OF HON. CHRISTOPHER S. "KIT" BOND, A U.S. SENATOR FROM MISSOURI

Mr. Chairman, it is a pleasure to join you this morning to discuss the dairy portion of the 1990 farm bill. The Food Security Act of 1985 secured a policy of gradually reducing the support rate to restore the balance between production and consumption. The Dairy Termination Program removed 12.3 billion pounds of milk over an 18-month period. Milk production declined but has since crept back up to preprogram levels. As we saw last year, periods of peak supply do not always correspond with periods of peak demand; there is the potential for market and inventory instability. Implementing farm programs which balance Government cost, farm income, production and competitiveness is both a challenge and a necessity.

Missouri currently ranks 11th in milk production nationwide. We have 228,000 cows, 8,500 dairy farms, and Mid-America Dairymen's headquarters is located in Springfield, Missouri. Clearly the dairy industry is very important to Missouri.

I look forward to learning more about the administration's proposal and how they will deal with the milk marketing orders, the price support program and regionalization difficulties that appear to be surfacing.

I was also very pleased to learn that the dairy industry has reached "almost unanimous" agreement on provisions for the 1990 farm bill. I look forward to hearing about their proposals dealing with the milk equivalent formulas, adjusting the price support level, supply management, and the different regional impacts from this proposal, if any.

Mr. Chairman, during the last recess I traveled throughout Missouri talking with producers about the upcoming farm bill. As I talked to producers about farm bill issues, they made a couple of points very clear: (1) they expressed the need to manage their inventory; and (2) the need to bring current dairy policy in line with new consumer demands.

The dairy industry has enjoyed success in the marketplace and today more than ever, dairy farmers want a chance to compete in the world market. The dairy industry must be in a position to take advantage of new technologies and react quickly to new market signals. Complacency is something we should all reject.

Mr. Chairman, I appreciate your efforts as we proceed with this legislation and commend you for another fine lineup of witnesses. I look forward to hearing from them.

Senator **BOND**. I would like to ask Dr. Gardner, do you think that the milk equivalent measurement needs to be changed? If so, in what ways? Perhaps more importantly, does the current milk equivalent measurement reflect consumer preferences?

Mr. **GARDNER**. You mean the milk equivalent used in determining the 5 billion pound trigger? What it does not reflect very well—what is out of balance currently is the commodities that we are acquiring, being butter and not powder. So that for the moment, of course, we get calls for looking at including the nonfat solids in the formula for calculating the 5 billion pounds. But I think over time the fat basis works perfectly appropriately as long as we have the product prices in relative alignment so that we get a more balanced over time use of the support program by commodities. So I would say that we should not change the calculation of the trigger just based on what has happened in the last year or so.

Senator **Bond**. How long will it take to get that to even out? I mean is this going to continue to be a festering problem?

Mr. **Gardner**. No, I do not——

Senator **Bond**. I do not know whether consumer tastes have changed that much and demand is changed that much. How do you see the thing working out?

Mr. **Gardner**. Well, I think it is not so much consumer demand in this case, but it is what happened to the nonfat dry milk price in world markets that has made some difference there with that showing really quite unexpected strength this year, which means we have not had to be in the powder market. That presumably, we think, this year will return to more normal relationships and of course, we have had the last two price support adjustments on butter. So that that is going to help align the CCC acquisition of commodities, and I would say by the end of the year we probably will be largely out of the current imbalance.

Senator **Bond**. So you think that production will come into line with consumption in that area?

Mr. **Gardner**. Well, it is not so much production in line with consumption as it is changes in the world price for powdered milk, and gradually working off the butter acquisitions as we have changed the support prices for butter relative to the other products.

Senator **Bond**. Very quickly, I just would like to know do you see a problem with regionalism in the dairy industry?

Mr. **Gardner**. I see a problem if regionalism goes too far and we try to isolate regions in a way analogous to the way countries sometimes try to isolate their markets from one another. I think one of the reasons the United States is a rich country is that we have a very large national market for many commodities. We permit commodities to move throughout the country according to the costs and demands for them, and we should do that in dairy as in other commodities.

So we should not have regionally specific prices or try to establish different prices in different parts of the country artificially.

Senator **Bond**. Mr. Chairman, I am out of time, but if we do not have an opportunity, if someone else does not ask you about it, I would be interested in receiving the USDA's analysis of the National Milk Producer Federation proposal. Thank you, Mr. Chairman.

Mr. **Gardner**. I would be glad to provide it.[10]

The **Chairman**. And as soon as we have that, the other analysis of the projected prices that you talked about, you said it would be available in about 10 days, both with or without bST, make sure, and I will ask the staff to make sure that copies of that are given to every member of the committee and Senators like Senator Kohl or anybody else who may have interest in that.[11]

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[10] No response was provided for the record.

Senator **Conrad**. Thank you, Mr. Chairman. Welcome, Mr. Gardner. We are spending so much time together lately around this table, I probably should buy you lunch. I am interested in knowing what the key goals of the administration's dairy policy are? If you were to summarize very quickly, what is it that you are attempting to accomplish?

Mr. **Gardner**. I would say that we are attempting to stabilize the market at a floor price that will be minimally acceptable to producers without having to involve the Government in intense, continuing year to year regulation of the industry or unacceptable levels of outlays.

Senator **Conrad**. When you say "minimally acceptable to producers" obviously that attaches to a policy, a social policy of a network of family farms either being out across the countryside or not being out across the countryside. Or, being so sharply reduced that the infrastructure of rural areas fails—that is happening in my State.

The rural infrastructure is going to fall because there are not sufficient numbers of people out there to maintain it. And when you say "minimally acceptable" what does that mean in terms of a policy of maintaining a network of family farms?

Mr. **Gardner**. What I mean by that is that I do not think we can hope for a policy that is going to guarantee a profit over and above the normal investment of time and capital and land and so on that the farmer puts into dairy farming. But we can put a floor under the return so that we do not see prices falling precipitously and farmers being forced into immediate problems.

Senator **Conrad**. But you do see, I mean the goal of this proposal, as I see it, is declining prices which means slow economic strangulation for thousands of dairy producers; is that a correct conclusion?

Mr. **Gardner**. No, that is not a correct conclusion.

Senator **Conrad**. Well, are you telling me that this set of proposals will raise prices?

Mr. **Gardner**. This set of proposals will stabilize the market. It will not attempt to put an indefinite floor under prices for an extremely long period of time. But I do think it is not correct to presume that if we do not provide a permanent level of support for the dairy industry that the industry will go under or be in a continual state of stress or problems. I do not think that will be the case at all.

Senator **Conrad**. Well, do you think, under this set of proposals, there will be more dairy farmers 5 years from now or less?

Mr. **Gardner**. I think this proposal will not change the number of dairy farmers at all from what it would have been otherwise because our proposal does not change current law with respect to the level of support prices.

Senator **Conrad**. Well, remember, under current law in my State we have lost one-third of the dairy farmers in the last 5 years. The trend is pretty clear. The question is what is the policy? Mr. Chairman, I am not going to pursue this because of obvious time constraints we have with this lengthy number of witnesses, but these are the central questions that have to be asked and answered.

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[11] See pp. 225–226 for the response from USDA on what effects would the use of bST in the U.S. dairy industry have on milk markets, particularly on the price of milk.

The CHAIRMAN. I just want to make sure I understood Dr. Gardner's last answer when he said it does not change current law. In effect, it does change current law because it allows you to keep on cutting the price support level even if purchases fell below what, the 2.6 billion trigger?

Mr. GARDNER. Yes, but it also allows——

The CHAIRMAN. That is a change in current law; is it not?

Mr. GARDNER. Yes, but it is symmetric. It allows us to raise the support price in conditions that we could not do it now also. That is if the projected purchases are between 2.5 and 5 billion pounds, as it is now, we leave the support price the same. Under our proposal, the Secretary could raise or lower the support price by 25 cents.

The CHAIRMAN. I was going to say I am not sitting here in eager anticipation of seeing an announcement from the Department of Agriculture that they are going to raise it. I have waited for it for a number of years. But such an announcement has never come. And I do not think either you, Dr. Gardner, or Secretary Yeutter or anybody else really anticipate there is going to be any such announcement in the foreseeable future. I mean it is nice to say that it is there. I am also free to win the lottery, as are all of us, but I am not planning on paying my mortgage based on winning the lottery.

Senator BOSCHWITZ. Are you a gambling man?

The CHAIRMAN. No. I probably would have to buy a ticket first. You have to get around to buy the ticket.

Senator BOSCHWITZ. Did not have to raise the price. Something called the market did it.

The CHAIRMAN. Technically I am free to do it, but the price is not going to be raised. Senator McConnell.

Senator MCCONNELL. Mr. Chairman, I will pass for the moment.

The CHAIRMAN. Well, Dr. Gardner, I appreciate your coming up here. I will look forward to seeing those projections and thank you very much.

Mr. GARDNER. Thank you.

[The prepared statement and attachments of Mr. Gardner follow:]

STATEMENT OF
BRUCE GARDNER
ASSISTANT SECRETARY FOR ECONOMICS
U.S. DEPARTMENT OF AGRICULTURE
BEFORE THE
SENATE COMMITTEE ON
AGRICULTURE, NUTRITION, AND FORESTRY
MARCH 7, 1990

Mr. Chairman and Members of the Committee, I appreciate the opportunity to appear here today to present the Administration's views on dairy policy for the 1990 Farm Bill. After briefly summarizing the performance of the U.S. dairy industry under prior and current legislation, I will discuss our "Green Book" proposals and some alternative policies which have been suggested.

U.S. Dairy Industry

Dairy products account for about 13 percent of total cash receipts from all farm commodities. In 1988, cash receipts from dairy products totalled nearly $18 billion, ranking second only to cattle and calves.

Although milk is produced and processed in every state, over half of total 1989 U.S. milk production occurred in five states, Wisconsin, California, New York, Minnesota, and Pennsylvania. A regional shift in milk production from the traditional dairy areas of the Upper Midwest and Northeast to the West and Southwest began about three decades ago. However, Wisconsin remains far ahead as the number one milk producing state.

Substantial structural change has taken place in the dairy industry during the past several decades. The number of commercial dairy farms declined from 600,000 to less than 200,000 from 1955 to 1988. Cow numbers declined by over 50 percent during the same period. However, nearly a 150 percent increase in milk production per cow enabled milk production to more than keep pace with commercial needs.

Per capita commercial use of all dairy products has shown little change since 1970. Per capita fluid milk sales have decreased by an average 2.7 pounds per year, reflecting a 6.5 pound drop in whole milk sales partially offset by a 3.8 pound increase in sales of lowfat milk.

Growth in the commercial cheese market has been very important to the dairy industry over the past 25 years. Cheese production has utilized more than a fourth of the total milk production in recent years, compared with less than an eighth in 1960. Per capita consumption of American cheese grew about a fourth of a pound annually during 1970-88, while consumption of other varieties rose about half a pound per year.

The replacement of butter by margarine appears to have ended. In recent years, per capita butter consumption has stabilized at about 4.5 pounds.

Federal dairy programs play an important role in the pricing and marketing of milk in the U.S. The major dairy programs are dairy price supports, Federal milk marketing orders, and import restrictions. Today, my remarks will focus on dairy price supports.

Prior Legislation

Before 1977, milk support prices were set annually for the upcoming marketing year at between 75 percent and 90 percent of parity. Generally, the support price trended upward at a little less than the economy's inflation rate. For the 1977-81 period, legislation enacted in 1977 and 1979 required an 80 percent of parity support level with semi-annual adjustments for inflation. During that period, high levels of inflation caused the support price to increase by over $4 per hundredweight (cwt). These rising support prices encouraged expansion of dairy facilities, dairy cow numbers, and milk production per cow. Commodity Credit Corporation (CCC) net removals of dairy products on a milkfat equivalent basis grew from about 2 billion pounds in calendar 1979 to nearly 9 billion pounds in 1980 and to nearly 13 billion pounds in 1981. The first step toward bringing supplies back into line with consumption was taken when legislation was enacted on March 31, 1981, which rescinded the scheduled April 1, 1981 increase in the support price.

The Agriculture and Food Act of 1981 was a major departure from previous dairy price support legislation. Passed during a time of large surpluses, it no longer necessarily tied the price support level for milk directly to parity. Instead, as long as large CCC purchases continued, the support price for 1981/82 was to be held at the 1980/81 level with modest increases permitted thereafter.

Continuing milk market imbalances brought additional legislative change in both 1982 and 1983. Legislation enacted in 1982 continued the freeze in the support price and provided for deductions from milk producers' receipts to help offset the cost of the price support program.

The Dairy and Tobacco Adjustment Act of 1983 (the 1983 Act) permitted the minimum support price to be lowered from $13.10 per cwt to $12.60 per cwt and allowed for additional $0.50 reductions on April 1 and July 1, 1985 if CCC net removals were projected to exceed designated triggers. On both dates, the support price was reduced as purchases were projected to exceed the statutory triggers.

The 1983 Act provided for a voluntary milk diversion program. Producers in the 15-month program could elect to enter into contracts to reduce their milk marketings from 5 to 30 percent and receive $10 per cwt for the reduction in production. A mandated assessment of $0.50 per cwt was collected to partially offset the cost of the milk diversion program. The 1983 Act also authorized a nonrefundable $0.15 per cwt assessment to finance a dairy product research and promotion program.

These program changes had little effect on the supply-demand imbalance in the dairy industry during the mid-1980's. In calendar 1985, CCC net removals were still in excess of 13 billion pounds. Despite several reductions in the support price and the voluntary milk diversion program, milk production increased by over 10 billion pounds between 1981 and 1984, exceeding the increase in commercial use over the same period.

1985 Farm Bill

At the time the Food Security Act of 1985 (the 1985 Act) became law, the U.S. dairy industry still faced a substantial supply and demand imbalance. Milk production was rebounding with the conclusion of the diversion program and favorable milk-feed price relationships. During the 1985/86 marketing year, CCC net removals of dairy products exceeded 12 billion pounds, milk equivalent, and price support outlays totalled $2.3 billion.

The 1985 Act held the milk support price at $11.60 per cwt for 1986. After 1986, the support price was set at $11.35 per cwt for the period January 1 through September 30, 1987, and, subject to adjustment, $11.10 per cwt for the period October 1, 1987 through December 31, 1990.

For each of the 1988-90 calendar years, support prices were authorized to be adjusted based on projected purchases. If projected purchases for the forthcoming calendar year were less than 2.5 billion pounds, milk equivalent, the Secretary was required to increase the support price by $0.50 per cwt on January 1. If purchases were expected to exceed 5.0 billion pounds, the support price declined $0.50 per cwt. If purchases were expected to be between 2.5 and 5.0 billion pounds, the support price would remain unchanged from the previous year.

Based on the above triggers, milk price supports were reduced by $0.50 per cwt on both January 1, 1988 and January 1, 1990. A possible price support reduction on January 1, 1989 was precluded by provisions of the Disaster Assistance Act of 1988, which also included a temporary increase for 3 months.

The 1985 Act mandated a Dairy Termination Program (DTP), or "whole herd buyout," which paid farmers to leave dairying. The purpose of the DTP was to reduce milk production of DTP participants by at least 12 billion pounds during an 18-month period. Also, all producers during the same 18-month period were required to pay assessments on milk marketed, which helped offset part of the cost of the DTP. To minimize the effect of the DTP on livestock producers, the Government was required to purchase 400 million pounds of red meat in addition to that normally purchased.

The 1985 Act also legislated higher minimum Class I differentials in 35 of the 44 Federal milk orders that were operating in May 1986. The largest of these increases were in southern markets.

Effects of the 1985 Act

Upon the completion of the DTP, milk production rose 2.3 percent in marketing year 1987/88. The 1988 drought and reduced forage supplies lowered milk returns over feed costs, causing

1988/89 production to be about the same as in 1987/88. Milk production is likely to expand during 1989/90, perhaps by 1-3 percent. Further gains are likely in 1990/91 as declines in cow numbers moderate and milk per cow recovers from the effects of the 1989 drought.

U.S. demand for dairy products remained stable in 1987/88. However, commercial use declined slightly in 1988/89 in response to strong milk prices. Commercial use of dairy products is expected to increase in 1989/90 and 1990/91 as prices decline from their recent record highs.

International dairy product markets, especially for nonfat dry milk, changed dramatically beginning in 1988. In calendar 1989, the U.S. commercially exported about 350-400 million pounds of nonfat dry milk. Prior to 1988, world prices were depressed as many countries marketed their surplus production on world markets. In 1988, however, world production of nonfat dry milk declined. Lower production abroad coupled with reduced support prices in the U.S. made commercial export of U.S. nonfat dry milk profitable.

Under the provisions of the 1985 Act, the dairy industry has reduced excess production and program costs have fallen. Government surplus purchases are expected to total about 8 billion pounds in 1989/90, down about 4 billion pounds from 1985/86. Uncommitted government stocks of dairy products have fallen to less than half of the nearly 10 billion pounds in 1985/86. The annual cost of the dairy price support program is projected to be $0.5 billion in FY 1990 and $0.6 billion in FY 1991, down $1.7 billion from FY 1986.

Administration's 1990 Farm Bill Proposal

Our 1990 Farm Bill proposal for the dairy price support program slightly modifies the price support formula as set forth by the 1985 Act. Our proposal provides ranges of price support adjustments and purchase level triggers to give the Secretary flexibility to recognize market conditions when setting support prices:

If government purchases are estimated to be:	The support price shall be adjusted by: Administration's proposal:	Current law
(bil. lbs.)	(dol./cwt.)	
2.5 or less	+.25 to +.50	+.50
2.51 to 5.0	-.25 to +.25	0
5.01 to 7.5	-.25 to -.50	-.50
7.51 to 10.0	-.50 to -.75	-.50
10.0 or more	-1.00	-.50

The current price support formula does not give the Secretary any discretion in setting support prices based on anticipated market conditions. It mandates a limited reduction in the support price even when burdensome supplies are expected. The onset of large supplies could lead to pressures to implement a milk diversion or dairy herd termination program, which could be seen to be disruptive by livestock producers and dairy processing and manufacturing firms.

Critics have charged that the intent of the Administration's proposal is to reduce the milk support price further and faster. That assertion is unfounded. Our proposal simply provides a means of better balancing supply with demand and controlling program costs. In the event of large increases in milk productivity and production, our proposal would allow larger reductions in the support price than currently allowed. However, our proposal would also allow larger increases or smaller reductions when projected purchases are less than 7.5 billion pounds.

The 1985 Act mandated Class I differentials for milk marketed for fluid use under Federal milk marketing orders. Changes in technology and economics have given rise to a series of related issues including the appropriate differentials, the number of basing points, and reconstituted milk. The Department is reviewing these issues.

Other Dairy-Related 1990 Farm Bill Proposals

There has been discussion of several additional changes in the dairy price support program including raising the 5 billion pound price support purchase trigger, calculating CCC net removals on a total solids or nonfat solids basis, or using a stocks-to-use ratio to determine price support triggers. Generally, these proposals attempt to eliminate or forestall future decreases in the support price by increasing the level of purchases that would trigger a price support reduction. Such programs would raise CCC net removals and dairy program costs, reduce the competitiveness of U.S. dairy products in world markets, and provide the signal to producers to continue to expand production when production is already excessive. In addition, some of these proposals are based on the assumption that the current situation of relatively tight supplies of nonfat dry milk will continue, which could prove false.

Some have also suggested two-price plans or converting the current purchase program to a target price/deficiency payment program. Under two-price plans, producers would receive the blend price on a portion of their production. On the remaining production, producers would be assessed or taxed when CCC net removals or milk production exceed a designated level. These proposals tend to discourage production when that production would otherwise be profitable. The final outcome would be a less competitive, less efficient, dairy industry.

A target price/deficiency payment program for milk might be tailored along the lines of the program currently in place for grains. If dairy producers' incomes are to be maintained at the same level as under current programs, this proposal would be more expensive than the current program. If current production is used as the payment base, the target price would result in overproduction. To lower costs, there would the temptation to require producers to cut production. The outcome, again, would be a less competitive, less efficient, dairy industry.

The Administration's dairy price support proposal would build upon the market-oriented policies of the 1985 Act. This proposal is consistent with many recommendations of the National Commission on Dairy Policy.

As we review proposals for the 1990 Farm Bill, it is certainly worthwhile to consider the findings of the National Commission on Dairy Policy. The Commission was created by the 1985 Act to make recommendations on the Federal dairy price support program and the future of the U.S. milk production industry. It submitted its report to Congress on March 22, 1989. The Commission consisted of 18 active milk producers representing eight geographical regions, having roughly equal milk production, and included members of various agricultural and dairy industry associations.

The Commission report was endorsed by all 18 Commissioners. Considering that the Commissioners represented all regions of the U.S., with various-sized dairy operations, a complete endorsement was truly remarkable. The report was the first unified proposal from the dairy industry in more than a decade. The Commission offered the following fundamental conclusion: ". . . federal dairy policy should be market-oriented. Market forces, together with adjustments in the government support price, should balance supply and demand for milk and milk products. While the Commission recommends the use of "standby" production controls, their use on a permanent basis is not in the best interest of the industry."

The Commission rejected a "regionalized" price support program concluding, "Federal programs cannot and should not attempt to change basic geographical features favoring milk production in one area over another. These features, which include favorable climate, abundant feed, and a diverse agricultural base, will lead to increased production in certain areas over time.

Regionalizing dairy policy in an attempt to protect milk producers in any one area would counter these basic market forces. As a result, the Commission believes price support should not be modified regionally to protect producers in one area of the country."

Many of the proposals for major change in the dairy program are driven by fear of overproduction at the current price support level. Through improved breeding, feeding, and management, milk output per cow has increased by over one-quarter during the past decade. New technology in the next 10 years, including genetics, animal nutrition, disease control, and bST will lead to further increases in efficiency. At the present time, we expect milk production per cow to increase by about 25 percent between now and the year 2,000. These new technologies offer new opportunities for our farmers to compete abroad and for our dairy industry to grow and prosper.

The Federal government should not inhibit the adoption of new technologies by farmers or other segments of the dairy industry. This will only result in lost opportunities for our farmers. Nor should the government design dairy programs that attempt to insulate farmers from the effects of change or deny consumers the benefits of progress. Rather, the Federal government should recognize and plan for technological advancements in determining future dairy policy.

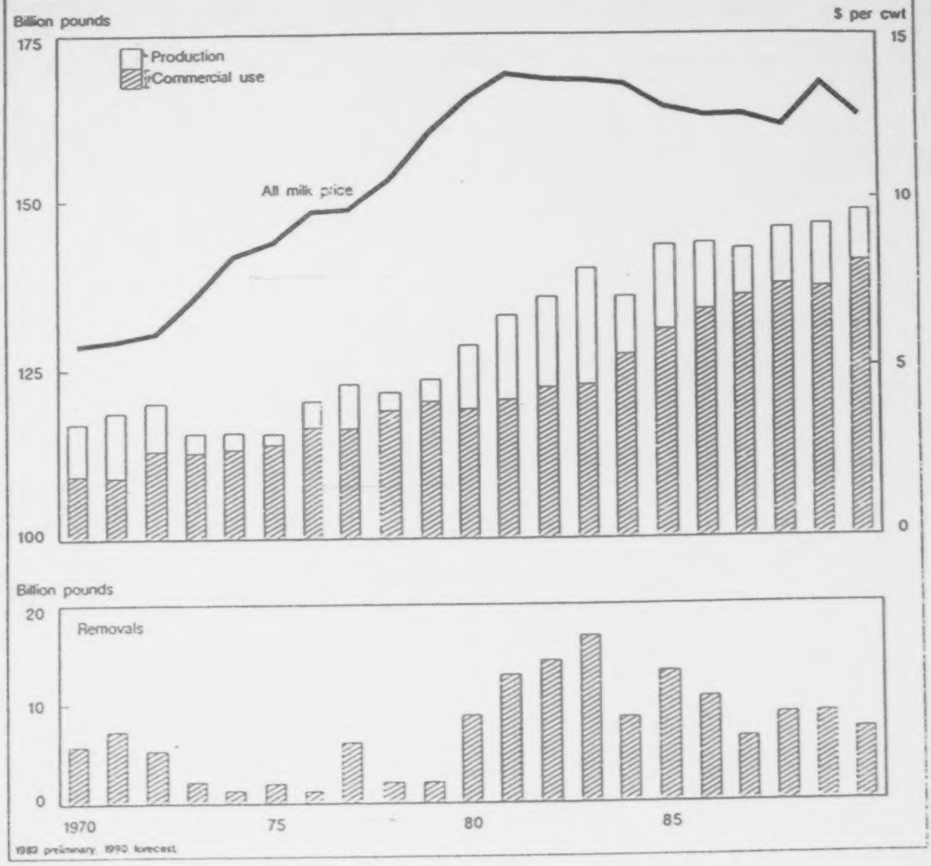
Mr. Chairman this concludes my testimony. I will be happy to respond to any questions either you or Members of the Committee may have.

U.S. MILK SUPPLY, USE AND PRICE

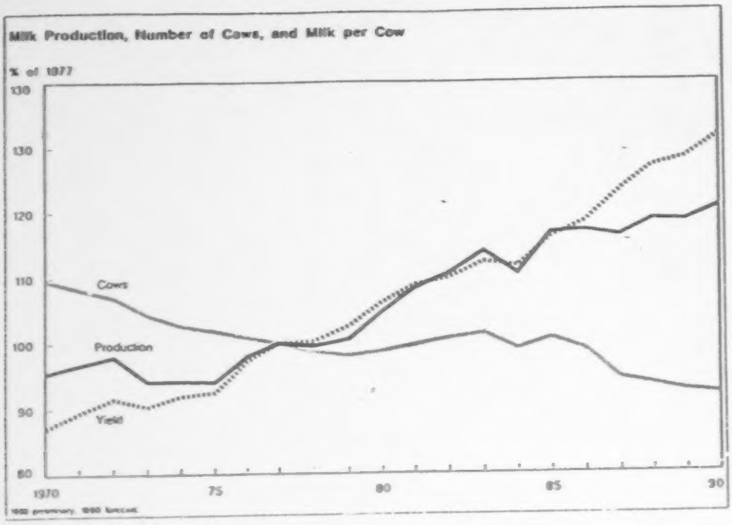
Marketing Year:	1986	1987	1988 1/	1989 2/
	- - - - - Billion pounds - - - - -			
Supply				
Begin. commercial stks	5.1	5.4	4.9	5.2
Production	141.5	144.8	144.6	147.1
Farm use	2.3	2.2	2.2	2.2
Marketings	139.2	142.6	142.4	144.9
Imports	2.6	2.5	2.4	2.4
Total cml. supply	146.9	150.5	149.7	152.5
Use				
Commercial use	136.1	135.9	135.3	139.3
Ending commercial stks	5.4	4.9	5.2	5.4
CCC net removals	5.4	9.7	9.2	7.8
	- - - - - Dollars per cwt. - - - - -			
Prices rec'd by farmers 3/				
Manufacturing grade	11.58	11.03	11.93	11.80- 12.60
All Milk	12.62	12.08	12.98	12.90- 13.70
	- - - - - Million pounds - - - - - -			
Year end CCC uncommitted inventory				
Butter	82	161	191	91
Cheese	98	44	0	0
Nonfat dry milk	63	9	0	0

Marketing year beginning October 1. Milk equivalent, milkfat basis. 1/ Reflects NASS report released in February. 2/ Does not reflect NASS report, President's Budget baseline estimate. 3/ For milk of average fat test and does not reflect the deduction from producers as authorized in legislation.
Note: Totals may not add due to rounding.

U.S. Milk Production, Use, Prices, and Removals



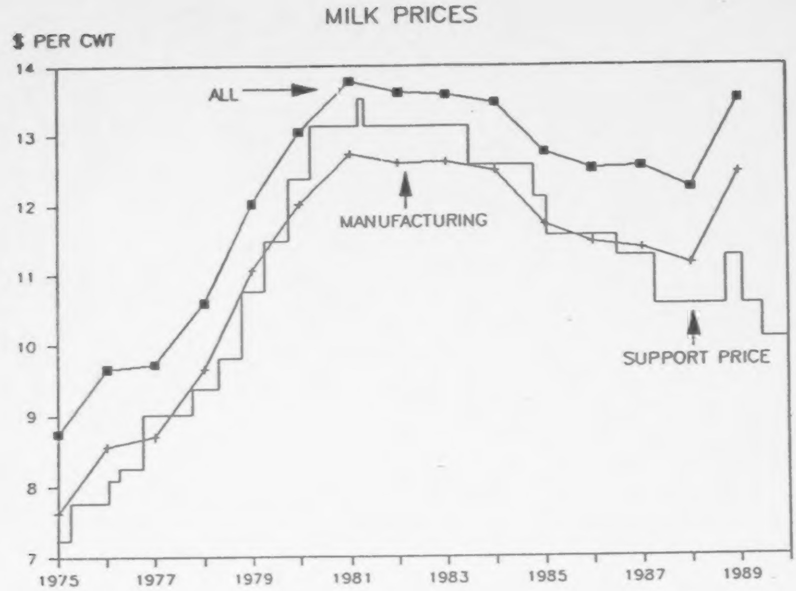
1989 preliminary. 1990 forecast.


Milk Production, Number of Cows, and Milk per Cow

1989 preliminary. 1990 forecast.

U.S. FARM PROGRAM OUTLAYS

Fiscal Year	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990P	1991P
	MIL. $										
Soybeans	87	169	288	-585	711	1,597	-476	-1,676	-86	236	52
Feed grains	-533	5,397	6.815	-758	5.211	12,211	13,967	9,053	3,384	4,270	6,099
Wheat	1,543	2,238	3,419	2,536	4.691	3,440	2,836	678	53	522	2,061
Rice	24	164	664	333	989	947	906	128	631	616	673
Cotton	336	1,190	1,363	244	1.553	2,142	1,786	666	1,461	-242	710
Dairy	1,894	2,182	2,528	1,502	2.085	2,337	1,166	1,295	679	483	617
Wool & mohair	42	54	94	132	109	123	152	131	93	121	120
Honey	8	27	48	90	81	89	73	100	42	69	44
ALL	4,036	11,652	18,851	7,315	17.683	25,841	22,408	12,461	10,523	8,174	10,239


MILK PRICES
$ PER CWT
14
13
12
11
10
9
8
7
ALL
MANUFACTURING
SUPPORT PRICE
1975
1977
1979
1981
1983
1985
1987
1989

ALLOCATIONS OF CHANGES IN MILK SUPPORT PRICES TO CCC PRODUCT PURCHASE PRICES

DATE	MILK SUPPORT PRICE	DIFFERENCE	BUTTER PURCHASE PRICE 1/	PROPORTION CHANGE	NDM PURCHASE PRICE	PROPORTION CHANGE	CHEESE PURCHASE PRICE
	$/CWT.		CENTS/LB.		CENTS/LB.		CENTS/LB.
Oct. 1, 1976 2/	8.26		90.85		62.40		92.50
Apr. 1, 1977 3/	9.00	0.74	100.67	50	68.00	50	98.00
Apr. 1, 1978	9.43	0.43	106.70	50	71.00	50	103.25
Oct. 1, 1978	9.87	0.44	111.38	50	73.75	50	106.00
Apr. 1, 1979	10.76	0.89	121.88	50	79.00	50	116.00
Oct. 1, 1979	11.49	0.73	131.25	50	84.00	50	124.00
Apr. 1, 1980	12.36	0.87	140.12	50	89.50	50	132.50
Oct. 1, 1980	13.10	0.74	149.11	50	94.00	50	139.50
Oct. 1, 1981	13.49	0.39	153.12	50	96.50	50	143.25
Oct. 21, 1981	13.10	-0.39	149.11	50	94.00	50	139.50
Dec. 1, 1983	12.60	-0.50	143.30	50	91.00	50	134.75
Apr. 1, 1985	12.10	-0.50	143.30	0	84.75	100	128.75
Jul. 1, 1985	11.60	-0.50	139.73	33	80.75	66	124.00
Jan. 1, 1987	11.35	-0.25	137.72	33	78.75	66	122.50
Oct. 1, 1987	11.10	-0.25	135.71	33	76.75	66	120.00
Jan. 1, 1988	10.60	-0.50	131.92	33	72.75	66	115.25
Apr. 1, 1989	11.10	0.50	131.92	0	79.00	100	120.25
Jul. 1, 1989	10.60	-0.50	120.54	100	79.00	0	115.50
Jan. 1, 1990	10.10	-0.50	109.25	100	79.00	0	111.00

1/ Represents the calculated price at Chicago.

2/ With a 15-cent per hundredweight tilt to cheese.

3/ Support price increased 74 cents, but butter/nonfat dry milk value increased 89 cents.

The CHAIRMAN. Senator Kohl, I appreciate your being here, too. We have our next group of witnesses, a panel, from the National Milk Producers Federation, Agri-Mark, Associated Milk Producers, Inc., Dairymen Inc. and Mid America Dairyman, Inc., none of whom are strangers to this committee, I might say. Tom Camerlo, Carl Peterson, Irv Elkin, Ray Moss Tucker, Jim Lefebvre. Tom, I understand you are going to speak for—you did not drive here today; did you?

Mr. CAMERLO. No, sir. I did not fly here today. I guess Denver is closed down.

The CHAIRMAN. I had a heard a sonic boom yesterday, and I knew it was either you coming to town or it was that SR-71 Blackbird coming in, but then I realized it was slower than you would have been so it must have been the SR-71. We will adjust the record. I should tell my fellow Senators that is a bit of a private joke.

Senator BOSCHWITZ. I do not think inside jokes should be allowed here. [Laughter.]

The CHAIRMAN. Take the whole committee as an inside joke. [Laughter.]

Fortunately the chairman gets to change the record. I understand there is about 15 minutes or so for the whole panel, but you are going to start off and then the others will add to your testimony. So, please, feel free.

STATEMENT OF JAMES P. (TOM) CAMERLO, PRESIDENT, NATIONAL MILK PRODUCERS FEDERATION, FLORENCE, CO; ACCOMPANIED BY JIM BARR

Mr. CAMERLO. Thank you, Mr. Chairman. I have asked Mr. Barr to come forward, too, and sit with us if it is okay to answer questions as we get into it.

The CHAIRMAN. Certainly. Delighted to have him here.

INTRODUCTION

Mr. CAMERLO. I appreciate this opportunity to provide the committee with our members recommendations for the dairy title of the 1990 farm bill, particularly our recommendations on the dairy price support program. From the standpoint of Federal policy, the Nation's dairy industry faces many of the same problems it has faced for the past several decades. Yet in several important ways our industry has undergone significant changes since the enactment of the 1985 farm bill.

POLICY GOAL: ADEQUATE SUPPLY OF MILK AND DAIRY PRODUCTS

I would like to briefly discuss these industry shifts and trends to show why we are recommending certain changes in the basic dairy policies embodied in the Food Security Act of 1985.

In one fundamental respect, the U.S. dairy industry has not changed over the years: it continues to have a structural tendency toward economic instability.

A quick look at the dairy industry's performance over the last several years indicates that price instability—to producers, processors, retailers and consumers—has increased, not decreased over the past several years.

The industry even experienced a period last fall when one of the most basic products of our industry, nonfat dry milk, was all but unavailable to the market. This situation led to record price runups, followed by record price plunges.

PROGRAM COSTS DOWN BY OVER 70 PERCENT

During the last 5 years, Government dairy product purchases have dropped dramatically and Federal spending on the dairy program declined from $2.4 billion during the fiscal year 1985–86 to $679 million during fiscal year 1988–89, a drop of over 70 percent in 3 years. USDA projects net dairy spending at $483 million this year, a drop of almost 80 percent in program costs over 4 years.

EQUITY AMONG COMMODITIES IMPORTANT

Among the major agricultural commodity programs, the dairy program has shouldered its share, and more, of the burden of deficit reduction. In the course of the debate over the commodity program provisions in the 1990 farm bill, it will be critical for members of this committee to recognize that the job of deficit reduction must be shared equitably among commodities in the future.

DAIRY PROVISIONS OF THE 1990 FARM BILL

As we look to the dairy provisions of the 1990 farm bill, it is important to have an understanding of the situation facing the dairy industry today, for the solutions needed to address the issues facing us today are somewhat different than those considered in the past.

Senator BOSCHWITZ. Are you following your testimony here at all?

Mr. CAMERLO. Yes, sir, I am summarizing it, Senator Boschwitz.

STRUCTURAL SURPLUS OF MILKFAT EMERGING

In more recent years, the dairy industry has increasingly tailored dairy products to the demands of the market. As a result, market demand no longer matches production evenly for all components of milk.

We refer to this circumstance as a "structural" surplus of a component of milk.

Our industry has shifted to a situation where milkfat is in structural surplus. This is due to a growing preference for lower fat dairy products by consumers and considerably stronger markets, both domestic and international, for nonfat dry milk, whey products, and other dairy products containing nonfat milk solids.

We believe that this structural surplus of milkfat represents the principal challenge for Federal dairy policy during the period that the 1990 farm bill will be in effect.

CURRENT DAIRY POLICY FAILS TO ADDRESS ACTUAL PROBLEMS

The basic goal for the dairy title of the 1990 bill is to establish a dairy program which enables the industry to maintain a supply/demand balance, thereby fostering the market stability which is the cornerstone of the dairy price support program. We do not have a program which provides that stability today. In fact, current Federal dairy policy, we think, is a disaster. It is failing to meet the needs of producers and consumers and is leaving numerous Federal food and nutrition programs without adequate amounts of dairy products.

MILKFAT-BASED TRIGGER IS POOR MEASURE OF CCC PURCHASES

Recent price cuts have been triggered by a rigid standard employed by USDA that has no relevance to today's dairy markets. The existing 5 billion pound trigger used by USDA to adjust the support price is a poor measure of supply/demand in the U.S. dairy industry.

USDA has reduced the support price for all dairy products based on CCC butter purchases alone when cheese and nonfat dry milk markets have been extremely tight.

Our members feel strongly that the most accurate way to measure CCC purchases is to weight them on a total solids basis which reflects the relative proportion in which the components of milk naturally occur in farm produced milk.

NMPF RECOMMENDATIONS FOR THE 1990 FARM BILL DAIRY PROGRAM

As you know, Mr. Chairman, we have been working for nearly 2 years to build consensus on dairy programs that will meet the needs of producers in this dynamic industry from coast to coast. We have built that consensus and come to you today with recommendations that enjoy broad support among our members.

I would like to briefly outline the program for the committee.

PRICE SUPPORT LEVEL

We urge that the milk price support level be maintained at a minimum of $10.60 per hundredweight during the period 1991 through 1995. The current support price is below market clearing levels. That is evidenced by the unavailability of CCC dairy stocks for domestic feeding programs and commercial market resale.

PROGRAM PROVISIONS

To address the structural milkfat surplus I spoke of a minute ago, NMPF supports a Component Adjustment Program (CAP). We call it the CAP program. The CAP program is designed to discourage production of excess milkfat at the source, on our farms. Under this plan, if USDA projects that CCC milkfat removals would exceed commercial use by more than 6 percent, dairy farmers would be encouraged to cut their milkfat output by a small amount or receive a much lower price for their excess marketings.

This would amount to a deduction on excess marketings that would be remitted to USDA to cover the cost of CCC purchases over 6 percent of commercial use, thereby limiting the cost of the dairy price support program. The CAP program is simple. It is an effective way to send an important market signal to dairy farmers. It assures that if a producer chooses to maintain or increase production of a component and surplus, that producer will pay the cost of the excess purchases. The Federal Government will not have to pay for it at all, nor will all dairy farmers be penalized by price cuts if they are willing to address the problem on their farmers.

If U.S. milk production on a total milk solids basis is projected by USDA to exceed 6 percent of commercial use, USDA should be directed to implement one of the following programs to achieve a supply/demand balance: a two-tier price program on all milk, a uniform herd buyout program; or a milk diversion program. While our projections indicate that such authority may be only used once during the 5-year period, it is prudent, we think, that USDA have the flexibility to institute a program if needed for budgetary purposes.

CONCLUSION

This broad policy would provide us with the tools to address the needs of consumers for a stable supply of dairy products at reasonable prices. It will also address the needs of America's dairy farmers for stable markets. Again, Mr. Chairman, I really appreciate the opportunity to be here today before you and the committee. Thank you.

The CHAIRMAN. Thank you.

[The prepared statement of Mr. Camerlo follows:]

national milk producers federation

1840 Wilson Blvd., Arlington, VA 22201
(703) 243-6111

James C. Barr, CAE
Chief Executive Officer

The National Milk Producers Federation is a national farm commodity organization representing virtually all of the dairy farmer cooperatives and their dairy farmer members who serve this nation by producing and marketing milk in every state in the Union.

Since its inception in 1916, the Federation has actively participated in the development of dairy programs which are a part of a total system of agricultural law and policy which can appropriately be termed a national food policy.

The policies of the Federation are determined by its membership on a basis that assures participation from across the nation. The policy positions expressed by NMPF are thus the only nationwide expression of dairy farmers and their cooperatives on national public policy.

TESTIMONY

of

JAMES P. (TOM) CAMERLO
PRESIDENT
NATIONAL MILK PRODUCERS FEDERATION

before the

COMMITTEE ON AGRICULTURE,
NUTRITION AND FORESTRY

UNITED STATES SENATE

regarding

THE DAIRY TITLE OF THE 1990 FARM BILL

March 7, 1990

Washington, D.C.

TESTIMONY OF

JAMES P. (TOM) CAMERLO
PRESIDENT
NATIONAL MILK PRODUCERS FEDERATION

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY
UNITED STATES SENATE

MARCH 7, 1990

Mr. Chairman, I am James P. Camerlo, President of the National Milk Producers Federation. I operate a dairy farm in Florence, Colorado, and serve as President of Western Dairymen Cooperative.

The National Milk Producers Federation is the national farm commodity organization which represents dairy farmers and the dairy cooperative marketing associations they own and operate throughout the United States.

The bulk of the nation's milk supply is marketed through dairy cooperative marketing associations that farmers have developed to represent them in the market. The marketing activities of these associations range from bargaining for price and other conditions of sale of bulk fluid milk to the production of finished dairy products and the distribution and retail sale of such products to consumers. Virtually every dairy product that is produced in any substantial quantity in the United States is included in the product mix of the cooperatives represented by the Federation.

The Federation provides the vehicle through which dairy farmers and their cooperative marketing associations formulate policy on national issues which affect their ability to produce and market milk and dairy products. The Federation and its membership seek to establish conditions under which farmers can join together to market their products in stable markets at prices which are reasonable both to producers and consumers.

Since its founding in 1916 the Federation has worked with the Congress and the executive agencies in the United States to secure the adoption of laws and the implementation of policies to further these basic goals.

NMPF's policies are established by our members on a basis which assures participation from across the nation. The policy views advocated by the Federation, therefore, represent the only nationwide expression of dairy farmers and their cooperatives on national public policy.

I appreciate this opportunity to provide the Committee with our members' recommendations for the dairy title of the 1990 farm bill, particularly our recommendations on the dairy price support program.

From the standpoint of federal policy, the nation's dairy industry faces many of the same problems it has faced for the past several decades. Yet, in several important ways, our industry has undergone several significant changes since the enactment of the 1985 farm bill. I would like to briefly discuss these industry shifts and trends to show why we are recommending certain changes in the basic dairy policies embodied in the 1985 Food Security Act.

Policy Goal: Adequate Supply of Milk and Dairy Products

The dairy price support program is the most fundamental of the public policies responsible for the economic well being of U.S. dairy farmers and their marketing cooperatives. The basic purpose, or policy goal of this program is to assure the nation an adequate supply of pure and wholesome milk and dairy products at reasonable prices. The program is intended to achieve this purpose by providing a degree of stability to milk prices paid to dairy farmers and prices for milk and dairy products paid by milk processors, dairy product manufacturers, retailers and consumers.

In practical terms, the dairy price support program represents a very simple mechanism for achieving price stability on a national level. Under the program, the federal government stands ready to purchase dairy products -- butter, cheese and nonfat dry milk -- at prices which should allow dairy product manufacturers to pay dairy farmers the support price for milk used to manufacture these products, after deducting their manufacturing costs. This places a floor, or support, under the price of milk during times when production temporarily exceeds available demand.

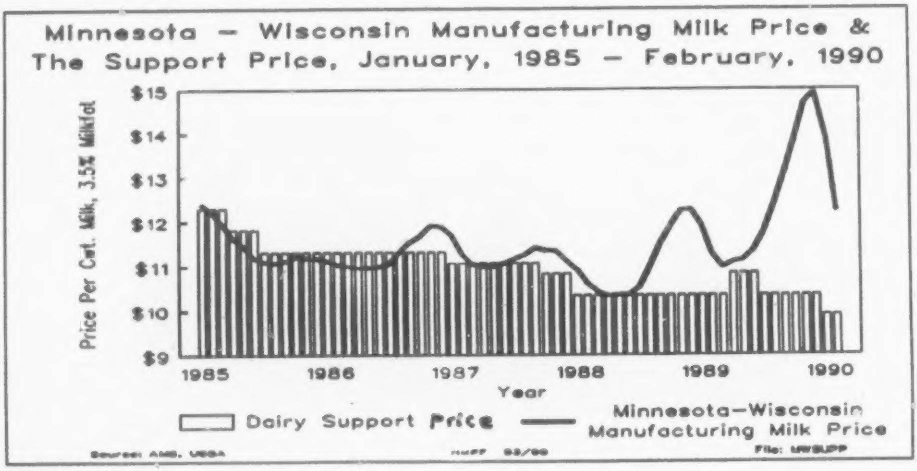
In one fundamental respect, the U.S. dairy industry has not changed over the years: it continues to have a structural predisposition to economic instability. This underlying tendency to economic instability of our industry has several sources. First and foremost is the biological nature of milk production and the basic inability of dairy farmers collectively to adjust their production to market demand with anywhere near the degree of supply control possessed by large industrial enterprises. Second, the bulky, highly perishable nature of milk poses substantial challenges in terms of marketing, handling and processing.

The dairy industry's structural predisposition to instability is evidenced in alternating periods of milk production over and under market needs. This occurs not only on a weekly and a seasonal basis, but sometimes even on a longer cycle of several years.

Persistently unstable prices are the chief manifestation of the broader, underlying economic instability that runs throughout our industry.

A quick look at the dairy industry's performance over the last several years indicates that price instability -- to producers, processors, retailers and consumers -- has increased, not decreased over the past several years.

The industry even experienced a period last fall when one of the most basic products of our industry -- nonfat dry milk -- was temporarily all but unavailable to the market. This situation led to record price runups, followed by record price plunges. The average price paid for manufacturing grade milk in the states of Minnesota and Wisconsin (M-W) during February fell by a record $1.72 per hundredweight from January. The previous record drop in the M-W was set just a month earlier, when the price fell $.99 per hundredweight. Since the M-W is the basic mover of milk prices under federal milk marketing orders, this record price drop will directly impact the pocketbooks of virtually all dairy farmers.



Minnesota — Wisconsin Manufacturing Milk Price & The Support Price, January, 1985 — February, 1990

Source: AMS, USDA

Income Stability to Dairy Farmers Threatened

Consumers cannot be guaranteed an adequate supply of milk and dairy products if dairy farmers are unable to receive adequate and reasonably stable financial returns from marketing their milk. Here, too, the record shows significant deterioration over the life of the 1985 farm bill.

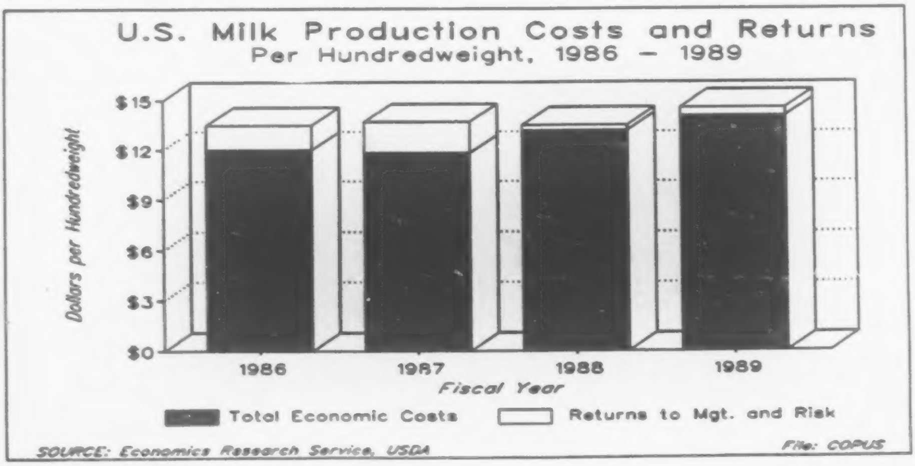
Overall Balance Achieved in Production and Demand

During the debate on the 1985 farm bill, there was little dispute on the basic dairy situation: the industry was experiencing a period of surplus milk production, which showed up as burgeoning surpluses of dairy products purchased under the dairy price support program and annual pricetags for the program in excess of $2 billion.

In 1989, U.S. milk production and consumption reached such a close balance that very little cheese and no nonfat dry milk -- two of the three products purchased under the dairy program -- were removed from the market by USDA's Commodity Credit Corporation.

Program Costs Down by over 70 Percent

Accompanying this very substantial drop in dairy product purchases was a corresponding drop in program costs. According to USDA, net government



U.S. Milk Production Costs and Returns
Per Hundredweight, 1986 – 1989

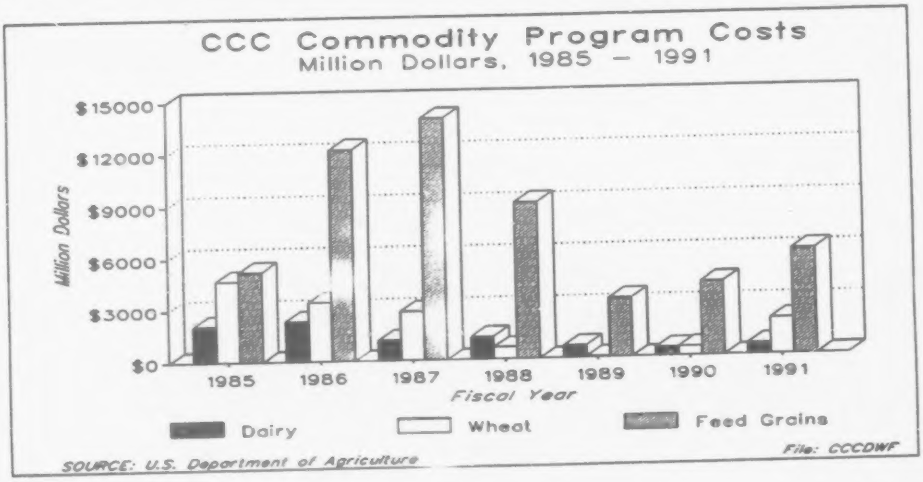
SOURCE: Economics Research Service, USDA expenditures for the dairy program declined from $2.4 billion during fiscal year 1985-86 to $679 million during fiscal year 1988-89, a drop of over 70 percent in just three years. USDA projects net expenditures at $483 million during the present fiscal year, which would represent a drop of almost 80 percent in program costs over four years.

By any measure, the record shows that dairy farmers have made a major contribution to reducing agricultural spending. These reductions have helped cut the cost of agricultural stabilization programs from 2.68 percent of the total federal budget in fiscal year 1986 to just over one percent of total federal spending today.

Equity Among Commodities Important

As budget-cutters continue their assault on agricultural programs, it is critically important that everyone involved in the nation's farm policy debate -- from members of this Committee to those of us working with you on these issues -- remember that farm programs have shouldered an inordinate amount of the burden of deficit reduction. Fairness, equity and the need for a sound national agricultural policy require that the 1990 farm bill not be solely budget-driven.

Furthermore, among the major agricultural commodity programs, the dairy program has shouldered its share, and more, of the burden of deficit reduction. During fiscal year 1986, dairy program costs ranked third among commodities, and represented 13 percent of CCC net program outlays for the three largest commodity programs, the other two being wheat and feed grains. Using the administration's budget projections,



SOURCE: U.S. Department of Agriculture

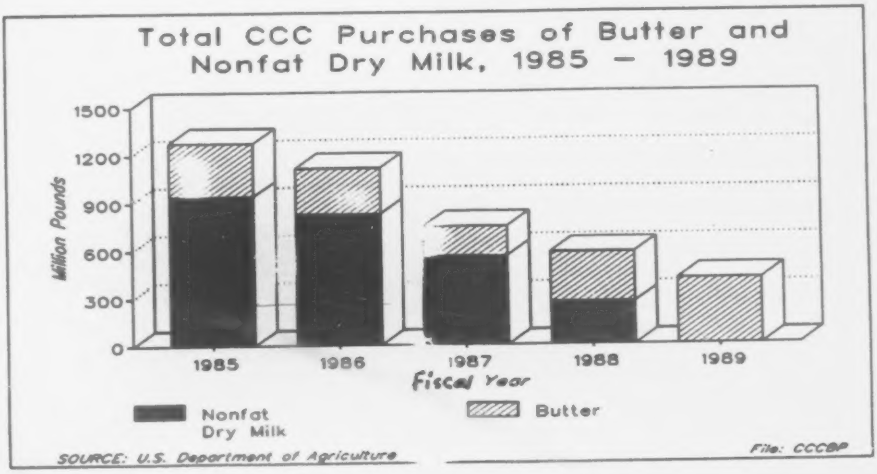
File: CCCDWF

dairy will drop to fifth place in the commodity program cost ranking, and dairy program outlays will represent only 7 percent of wheat, feed grains and dairy program outlays combined. In the course of the debate over the commodity program provisions in the 1990 farm bill, it will be critical for members of this Committee to recognize that the job of deficit reduction must be shared equitably among commodities in the future.

Structural Surplus of Milkfat Emerging

Milk, as it comes from the cow, is a mixture of components: milkfat (approximately 3.67 % by weight), nonfat milk solids (approximately 8.7 % by weight) and a fluid carrier. In earlier years, milk was marketed, processed, manufactured, and consumed more or less as it came from the cow. In more recent years, however, the dairy industry has increasingly tailored dairy products to the demands of the market. As a result, market demand no longer matches production evenly for all components of milk.

We refer to this circumstance as a "structural" surplus of a component of milk. It simply means that, if the nation is to be assured an adequate supply of all milk and dairy products, one particular component will necessarily be in surplus, while others are not. During the mid-1980's, the industry experienced a relative surplus of nonfat milk solids. Under the dairy price support program, CCC purchased proportionately more nonfat dry milk than butter.


Total CCC Purchases of Butter and Nonfat Dry Milk, 1985 – 1989

SOURCE: U.S. Department of Agriculture

File: CCCBP

More recently, our industry has shifted to a situation where milkfat is in structural surplus. This is due to a growing preference for lower-fat dairy products by consumers and considerably stronger markets, both domestic and international, for nonfat dry milk, whey products, and other dairy products containing nonfat milk solids.

We believe that this structural surplus of milkfat represents the principal challenge for federal dairy policy during the period the 1990 farm bill will be in effect.

Current Dairy Policy Fails to Address Actual Problems

The basic goal for the dairy title of the 1990 farm bill is to establish a dairy program which enables the industry to maintain a supply-demand balance, thereby fostering the market stability which is the cornerstone of the dairy price support program. It is fitting, therefore, to briefly examine current policy and judge its appropriateness in dealing with the problems and challenges the industry will face over the next five years. By this criterion, current dairy policy must be judged inadequate to the task.

Current policy consists of an annual "price support trigger" as follows:

- The price at which milk shall be supported during the calendar year shall be reduced from its existing level by 50 cents per hundredweight, if the Secretary of Agriculture estimates, on January 1 of that year, that purchases of dairy products by the Commodity Credit Corporation under the dairy price support program will exceed 5 billion pounds, milk equivalent, for the coming calendar year.
- The price at which milk shall be supported during the calendar year shall be increased from its existing level by 50 cents per hundredweight, if the Secretary of Agriculture estimates, on January 1 of that year, that purchases of dairy products by the Commodity Credit Corporation under the dairy price support program will not exceed 2.5 billion pounds, milk equivalent, for the coming calendar year.

Under this authority, the support price for milk was reduced from $11.10 to $10.60 per cwt. on January 1, 1988.

The Disaster Assistance Act of 1988 rescinded the Secretary of Agriculture's authority to reduce the support price on January 1, 1989, and provided for a temporary 50-cent increase in the support price, to $11.10 per cwt., during April, May and June,

1989. The price of milk was supported at $10.60 per cwt. during the last half of 1989.

Most recently, on January 1, 1990, the support price for milk was reduced from $10.60 to $10.10 per cwt. The current support price for milk is $3.00 per hundredweight, or almost 23 percent, below what it was just over six years ago.

The 5 billion pound trigger is a poor measure of supply-demand balance in the U.S. dairy industry, as we saw in both 1988 and 1989. During those years, CCC purchases were around 9.0 billion pounds milk equivalent, calculated on a milk equivalent of milkfat basis, but cheese and nonfat dry milk markets have been extremely tight.

Milkfat-based Trigger Is Poor Measure of CCC Purchases

We are very concerned about the Department of Agriculture's method of calculating the milk equivalent of dairy products purchased by the CCC in administering the milk price support program. This issue is important because Congress has tied adjustments in the support price to the level of dairy purchases under the price support program.

USDA uses a milkfat basis to convert dairy product purchases to a total milk equivalent. The particular method used for this conversion was not especially important during periods when the industry was in an overall surplus condition. But it is extremely important now that the industry has achieved a supply-demand balance for milk solids and is faced with a market surplus of only one component: milkfat.

Recent CCC purchases have consisted almost entirely of butter, a product that has a high milk equivalent when calculated on a milkfat basis. During calendar year 1989, dairy product purchases by CCC amounted to 9.0 billion pounds, milk equivalent when calculated on a milkfat basis.

Our members feel strongly that the most accurate way to measure CCC purchases is to weight them on a total milk solids basis, which reflects the relative proportion in which the components of milk naturally occur in farm-produced milk. Using this measure, CCC purchases during calendar year 1989 amounted to just 3.3 billion pounds, milk equivalent, or almost 6 billion pounds less than what USDA calculated.

These differences are obviously critical. Based on USDA's milkfat method of calculation, the Secretary reduced the support price on January 1, 1990, by the maximum permissible amount. Yet, by the Secretary's own projections, CCC expects to purchase dairy products with a milk equivalent -- on a total milk solids basis -- of between 3.6 to 4.4 billion pounds during calendar year 1990. This action is already causing even greater market instability and income losses to producers, despite the overall balanced market situation in the industry.

Clearly, the milkfat basis for the milk equivalent calculation is a poor measure of CCC purchases. Calculating the milk equivalent on a total milk solids basis provides a more accurate picture of the overall supply-demand situation in the dairy industry.

NMPF Recommendations for the 1990 Farm Bill Dairy Program

The NMPF Board of Directors has approved a set of recommendations for the dairy price support program in the 1990 farm bill. We believe these recommendations address the real challenges and issues affecting our industry and the dairy price support program. The specific program recommendations are:

Price Support Level

- The price of milk should be supported at $10.60/cwt. during 1991, and at not less than $10.60/cwt. during each of the calendar years 1992, 1993, 1994, and 1995.
- The price support level should be adjusted annually during 1992 through 1995 by 50 percent of the change in the U.S. average all-milk price during the most recent 12 months, compared with the same price during the prior year.

These recommendations on establishing the dairy price support level recognize that the current policy of simply lowering the support price is creating instability in the dairy industry, contrary to the program's intent. This is harmful to producers, processors, and consumers.

Program Provisions

- If net CCC purchases are projected to exceed 6 percent of commercial use, on a milk equivalent-milkfat basis, the Secretary of Agriculture should establish and carry out a Component Adjustment Program on producer marketings of milkfat during the coming calendar year.

- If net CCC purchases are projected to exceed 6 percent of commercial use, on a **milk equivalent-nonfat milk solids basis**, the Secretary of Agriculture should establish and carry out a Component Adjustment Program on producer marketings of skim milk during the coming calendar year.

- If net CCC purchases are projected to exceed 6 percent of commercial use, on a **milk equivalent-total solids basis**, the Secretary of Agriculture should establish and carry out one of the following programs to reduce production or marketings of milk during the coming calendar year:

  1) A two-tier price program on milk marketed by producers;
  2) A uniform herd buyout program;
  3) A milk diversion program.

- If dairy product imports into the U.S. increase, relative to their annual average levels during the period 1986 - 1990, the 6 percent program implementation levels described above should be increased by a corresponding amount.

NMPF's recommendations on these various program implementation mechanisms are "market-oriented" in that they would result in implementation of the specific program that is appropriate for a given situation. That is, if the industry experiences a surplus of milkfat, a component adjustment program would be implemented to address the issue of excess program costs due to excess milkfat marketings. On the other hand, if the industry experiences an overall excess of milk production, an inventory management program would be implemented to address the situation of excess program costs due to excess production and marketing of milk.

Administration

- During any year in which a program is in effect, each producer will be assigned a marketing history of milk, or a component of milk, as described below.

- If a Component Adjustment Program is in effect, each producer will be assigned an annual base for milkfat or skim milk. The base shall be a percentage of the producer's marketing history, calculated against total CCC removals. An amount will be deducted from the price paid per pound of milkfat, or per cwt. of skim milk, marketed in excess of that base. The funds collected will be remitted to the Commodity Credit Corporation.

- Under a Component Adjustment Program, the amounts deducted from marketings of milkfat or skim milk in excess of base will be determined to recover net CCC program costs in excess of 6 percent of commercial needs. In computing the amount to be deducted, a credit of at least 50 percent of the CCC purchase price will be assumed for dairy products donated through domestic food assistance programs. Products sold for export by CCC for more than 50 percent of the purchase price will be credited at the higher value.

- A producer-funded and producer-governed commercial export program for dairy products will be established. A marketing advisory committee shall be appointed to oversee this program and also to assist USDA in identifying marketing opportunities for stocks acquired by CCC.

Marketing Histories

- A producer will have three methods to choose in determining his marketing history:

  1) The amount of milk or milk component produced during the last 12 months; or

  2) The annual average amount of milk or milk component produced during the last 2 years; or,

  3) 75 percent of the annualized rate of production of milk, or a component of milk, based on the initial month's production. New producers will be assigned a marketing history based on this method.

- Marketing histories will be reestablished each year a program is in effect.

- If an entire producing dairy herd is transferred during the time a program is in effect, the marketing history for that herd can be transferred along with the herd.

Food Assistance Programs

One of the important historical benefits of the dairy price support program has been to provide the government with a buffer stock of dairy products that can be resold in commercial channels during periods when demand temporarily exceeds supply. It has also been an efficient means for procuring and distributing dairy products for domestic and international food assistance programs which the Congress decides are in the public interest.

Unfortunately, these food assistance efforts have been severely undermined by the unavailability of dairy products from CCC. Due to the dearth of cheese and nonfat dry milk stocks, USDA has cut back drastically on dairy product donations under the Temporary Emergency Feed Assistance Program (TEFAP) and on bonus dairy commodities for schools under the school lunch program.

The current 5 billion pound "trigger" level of government purchases is simply inadequate for the purpose of price stabilization or for providing an adequate quantity of dairy products for such food assistance programs.

Federal Milk Marketing Orders

Another area of federal agricultural policy that is critically important to dairy farmers is the Federal Milk Marketing Order Program.

The milk marketing orders promote orderly marketing of milk by applying a classified price system, which places milk used in fluid products in a higher price class and milk used in various manufactured products in lower classes. The orders establish minimum prices for milk in each use class to reflect local and general economic conditions affecting supply and demand for milk so as to assure an adequate supply of fresh, wholesome milk for beverage purposes and allow for the orderly disposition of milk in excess of such needs.

The order program eliminates the ruinous competition for milk markets by providing for a uniform or "blend" price to all producers who supply a given market. It provides accurate and detailed market information on the purchase and sale of milk in all Federal milk marketing areas. It has assured consumers an adequate supply of pure and wholesome milk for fluid use at reasonable prices.

We support the basic federal legislation authorizing the Federal Milk Marketing Order Program, which facilitates the orderly marketing of milk.

NMPF urges the adoption of two minor technical amendments to the Agricultural Marketing Agreement Act of 1937. These amendments would improve the Federal milk order program by providing authority for:

- Multiple component pricing programs applicable only to producer milk; and,
- Location adjustment rates which are not the same on producer milk and handler's obligations at a particular plant.

The amendment to provide authority for multiple component pricing programs applicable only to producer milk will facilitate expanded use of such milk pricing plans. Under this proposed new authority the value of milk components in addition to milkfat, could be reflected in the prices paid to dairy farmers without imposing a charge on a handler for components other than milkfat. Officials administering the Federal orders claim that existing legislation does not authorize such provisions.

The amendment on location adjustments would provide authority to apply different location adjustment rates on producer milk and handler's obligations. This new authority would be useful for establishing price incentives to ship milk to supply fluid milk markets.

GATT Negotiations

An issue which will undoubtedly have a major impact on the future of the nation's agricultural policy is the current round of international trade negotiation under the auspices of the General Agreement on Tariffs and Trade. The GATT talks are a major issue of concern to the nation's dairy farmers. We view it as critically important that this Committee and the Congress maintain its role in the establishment of U.S. agricultural policy. Our farm programs must be written here in the United States, not in Geneva, Switzerland.

The general objective of the agricultural negotiations in the Uruguay round is to achieve "substantial progressive reductions in agricultural support and protection ... resulting in correcting and preventing restrictions and distortions in world agricultural markets." In the negotiations, the U.S. administration has made abundantly clear its belief that attaining this objective would require the eventual elimination of the major types of agricultural programs under which the U.S. and virtually all other countries have operated to date.

The U.S. dairy industry supports the general objective of market stabilization, but has always recognized the essential role of stabilization programs in achieving this objective. Accordingly, U.S. dairy farmers and their marketing cooperatives seriously question the desirability of completely eliminating agricultural stabilization programs.

The objectives of U.S. dairy policies are to ensure an adequate supply of milk for domestic purposes. The industry, accordingly, has an almost exclusively domestic focus, which is mirrored in the orientation of the dairy industries of virtually all other countries.

The primary reason why dairy farmers in the United States are apprehensive about the agricultural negotiations is that they do not believe that the goal of eliminating all agricultural programs is consistent with the goal of ameliorating structural instability inherent in the dairy industry.

In addition, U.S. dairy farmers have serious concerns that any agreement in agriculture could be truly fair on a multilateral, multicommodity basis. The dairy programs of benefit to them, the domestic price support program, the Federal milk marketing order program, and the dairy import quotas imposed under the authority of section 22, are all highly visible policies. As such, they are high-profile targets for other country negotiators, while more hidden subsidies used by other nations are much more difficult to detect, measure and bring under negotiation.

We view the dairy import quotas imposed under the authority of section 22 as essential to prevent these domestic stabilization policies from being undermined and rendered ineffective by the distortions inherent in the international dairy market.

Furthermore, the National Milk Producers Federation opposes any modification to the waiver for section 22 approved by the Contracting Parties to the GATT. The Federation will oppose any action that allows greater access to U.S. milk and dairy product markets by other nations.

Finally, let me add that we believe negotiations should be truly multilateral and multicommodity. Trade-offs of concessions in one commodity in one country for those of another commodity in another country tend to exacerbate distortions in agricultural trade, not reduce them. These request and offer negotiations simply reinforce the underlying distortions in international trade.

Dairy Export Programs

On the issue of dairy export programs, NMPF supports extension, at least through 1995 of the legislative authority for the Dairy Export Incentive Program established by the Food Security Act of 1985.

NMPF also supports extension, at least through 1995, of the CCC direct export sales mandate for dairy products contained in section 1163 of the Food Security Act of 1985.

These two programs are effective means for expanding commercial exports of U.S. dairy products, as Congress intended in authorizing them.

Again, I appreciate this opportunity to present our recommendations on the 1990 farm bill to the Committee today, and I will be happy to respond to any questions.

The CHAIRMAN. Were there any other members who wished to say anything before we go into the questions, gentlemen?

Mr. ELKIN. Yes, several of us have statements.

The CHAIRMAN. OK. Why do we not, then, extend the time for this panel by another 5 or 6 minutes. Who would like to start?

Mr. ELKIN. I can start it.

The CHAIRMAN. Mr. Elkin.

STATEMENT OF IRVIN J. ELKIN, PRESIDENT, ASSOCIATED MILK PRODUCERS, INC., AMERY, WI

Mr. ELKIN. Thank you, Mr. Chairman, members of the committee.

INTRODUCTION

I am Irv Elkin, a dairy farmer from Amery, Wisconsin. I am also president of Associated Milk Producers, Incorporated (AMPI). I have submitted a full statement for the record.

OUR NATIONAL DAIRY POLICY IS INTENDED TO ASSURE AN ADEQUATE SUPPLY OF MILK AT REASONABLE PRICES BY PROVIDING A DEGREE OF STABILITY TO THE INDUSTRY

The dairy provisions of the 1990 farm bill are critical to the future of our industry. Our national dairy policy is intended to assure an adequate supply of milk at reasonable prices by providing a degree of stability to the industry. Recent program administration has, however, destroyed that stability.

It has been pointed out that last fall, we saw rapid milk price increases. In the past 60 days, however the M-W price has dropped $2.71, almost 20 percent. With that kind of instability it is impossible to run a farm operation. It is exceedingly hard to run a processing and marketing operation. It makes things uncertain and risky. We must have a change. I think the program outlined by National Milk Producers Federation, of which we are part, provides the basis for improved farm income, stable consumer prices, and an absolute cap on Government costs.

MANAGE PRODUCTION

Senator Boschwitz responded earlier to talking about controlling production, but as a dairy farmer I think what we are trying to do is manage production, managing it to the needs of the projected needs of the market. If General Motors knew they were going to sell about so many cars and continued to produce more than they were going to sell, they would lose money. I notice they have closed some plants lately. If they didn't do this and had to sell cars for 20 percent less they would go broke. We would all look at them then as idiotic. That is what is oftentimes being asked of us as dairy farmers. We are told that the only thing we can do is to continue to provide something for which there is no market.

We are looking for some means of controlling or managing production. With respect to Government costs, we recognize the need to limit on budget exposure. Dairy farmers have met this need through program changes and by contributing over $2½ billion in assessments on milk marketings over the past 6 years, mainly to maintain this program which we believe should be maintained for the stability in the industry. Government costs for the price support program have been reduced from a high of more than $2½ billion, which we agree was way too high, to about $600 million.

CONCLUSION

As the 1990 farm bill is developed, budget considerations will again be a major issue. In this regard it is essential to assure that the farm bill treats the producers of the various commodities included in the legislation equitably. Thank you, Mr. Chairman.

[The prepared statement and attached graph of Mr. Elkin follow:]

Statement of

Irvin J. Elkin

Associated Milk Producers, Inc.

before the

COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY
of the
UNITED STATES SENATE

with respect to
The Dairy Provisions of the 1990 Farm Bill

March 7, 1989

Irvin J. Elkin
Route 4, Box 120
Amery, Wisconsin 54001
715/268-2747

I am Irvin J. Elkin, a dairy farmer from Amery, Wisconsin. I am also president of Associated Milk Producers, Inc., a dairy cooperative marketing association with membership in 21 states across the central United States. Last year, AMPI's 20,000 members produced more than 12 percent of the nation's milk supply.

We appreciate this opportunity to make recommendations with respect to the dairy provisions of the 1990 farm bill. Frankly, we view this legislation as critical to the future of the dairy industry.

The instruments of dairy policy have been designed to provide economic stability to an industry that is inherently unstable. Unfortunately, the policy pursued in recent years has destroyed much of that stability, leaving producers processors and consumers alike faced with erratic price swings. If continued, this policy will reduce the economic efficiency of the industry and result in greater consumer cost for milk and dairy products.

The attached chart compares the dairy price support level with the Minnesota-Wisconsin Price for Manufacturing Grade Milk in recent years. You will note the major price swings of the past couple of years. Last year the M-W rose more than 35 percent from April to December. On the farm, we like rising prices. The bad news is that the pendulum has swung the other way and prices are on the downgrade. The first step was a record 99 cent drop in January. Most are predicting the M-W will bottom out this spring in the area of $11.00 per hundredweight. Some see an even greater decline.

This has happened with relatively minor changes in milk production levels. This is the product of negating the stabilizing influence of the price support program by reducing the support level to a point where it no longer effectively stabilizes the market.

This price cutting policy has been carried out as a means of maintaining a reasonable supply-demand balance and controlling government costs. It seeks these ends by reducing the profitability of dairying to the point where sufficient resources (farmers) are eliminated. We have always known, but it seems the lesson has to be relearned, that you cannot fine-tune things that well. There are substantial lags between price signals and production responses. By the time the price-cutting policy achieves its intended purpose we have a pretty healthy dose of over-kill for which we all pay a high price.

Unfortunately, this policy has not been particularly effective. Budget exposure continues to be a concern despite the fact that dairy farmers themselves have contributed over $2.5 billion in the form of assessments on milk marketings toward budget reduction in recent years. Farm income has been inadequate to allow farmers to achieve a reasonable standard of living. A recent USDA publication pointed out that in 1988 41 percent of the dairy farms in the U.S. failed to provide adequate income to meet farm costs, capital replacement and family living expenses even after taking in more than $11,000 in non-farm income. Some of us used to joke about taking a job off the farm to support our farming habit. It is no longer a joke.

Work on the dairy provisions of the 1990 farm bill began almost with the passage of the Food Security Act of 1985. That legislation directed creation of the National Commission on Dairy Policy, providing an opportunity for dairy farmers to take a searching look at their industry and the policy structure under which it operates. I believe this was the first time a segment of agriculture has been called upon to critique itself and outline the direction of future policy in that manner.

I had the privilege of being among the eighteen dairy farmers on the Commission. During our work, we went to every part of the nation and heard from dairy farmers operating under all possible production conditions in every type of market. One theme was overwhelmingly presented from every part of the country. The purchase-type price support operation in use since 1949 is an effective means of providing the price stability needed by the industry. Further, the need for that stability is greater today than ever before.

The Commission called for a continuation of the purchase program, creation of a market-oriented price support mover and provision of a standby inventory management mechanism that can be used to slow production expansion, limit government costs and bolster farm prices during periods when excess production is in prospect. There was unanimous agreement among Commission members on these points. This unanimity is remarkable given the wide range of the industry.

Since our report was delivered to Congress two years ago, a great deal of effort has been devoted to developing an industry position that will convert the broad principles set down into a working program. That has been done in the policy outlined here today by the National Milk Producers Federation.

This program meets the Commission's basic criteria. It also provides a basis for re-establishing stability for the industry.

The plan presented by National Milk Producers Federation has the support of the vast majority of NMPF members. There are some that oppose it, preferring to continue the situation we have at present. As we sit here today, we face a situation where the price support level has declined by 23 percent since 1983. We have stretched improved productivity, cost savings, and depreciation about as far as we can. It is time to seek another route.

The NMPF program would improve farm income, it would provide lower cost dairy products for the consumer and it will place a cap on government program costs. The latter point is particularly important as budget concerns will loom large as this farm bill is written. The recent Congressional Budget Office baseline for the dairy price support program assumes continuation of current policy through 1995. Under this scenario, there would be at least three additional price support reductions and the all milk price to farmers would decline by almost 20 percent between 1989 and 1995. As already pointed out, continuation of the present policy does not represent price stabilization. From the budget standpoint, the CBO baseline, if adhered to, would make it impossible to carry out an effective price stabilization program for dairy.

From the budget standpoint, dairy farmers have recognized the problem and have accepted program changes and contributed over $2.5 billion in assessments on milk marketings over the past six years. As this farm bill is written, it is essential to assure that it treats producers of the various commodities included in the legislation equitably from the budget standpoint.

The recently released Congressional Budget Office baseline for the dairy price support program is based on a continuation of the present policy. It projects declining CCC outlays under the program through 1995, reaching a low of $211 in that year. While we are fully aware of the need to control outlays, funding availability at this level is totally inadequate to carry out an effective price stabilization program. Further, the projected baseline fails to provide equity with producers of other commodities.

As with any program, there are a number of details that must be dealt with. In a detailed review of the plan, the AMPI Board of Directors had several recommendations for additions to the CAP which would strengthen it.

Since a new marketing history is to be established each year a program is in effect, producers not reducing marketings will be in a position to expand history. Unless safeguards are provided, a producer cutting marketings would be penalized in subsequent years in the form of a reduced marketing history. This can be prevented simply by providing that the marketing histories of those who reduce marketings during a year the CAP is in effect will have their marketing histories adjusted to reflect that reduction so they will not lose out through program compliance.

Another concern deals with the limited history transfer provision in the plan. Some have argued there should be no transfer allowed at all. This presents some problem as it could seriously reduce the value of a dairy farm when the the CAP is in effect. To avoid that, the limited provisions outlined have been included. These would allow the transfer of history when an entire herd is transferred when the program is in effect. This means that the history would follow the herd. In a case where the herd is sold for slaughter or dispersed to many buyers, there would be no history transfer. In this instance, it should be possible for the history to be transferred with the farm unit. In neither case would the history be transferred as an individual item. It would be tied to either the livestock or to the farm itself.

Finally, in administering the CAP, producers seeking to balance marketings with their history will be long in some months, short in others. To prevent the individual producer from being penalized by this changing marketing pattern, a year-end reconciliation should be provided for.

There has been a great deal of discussion about the need for policy changes with respect to the Federal Milk Market Order

Program in recent years. At our annual meeting last spring, our Voting Delegates approved the following resolution:

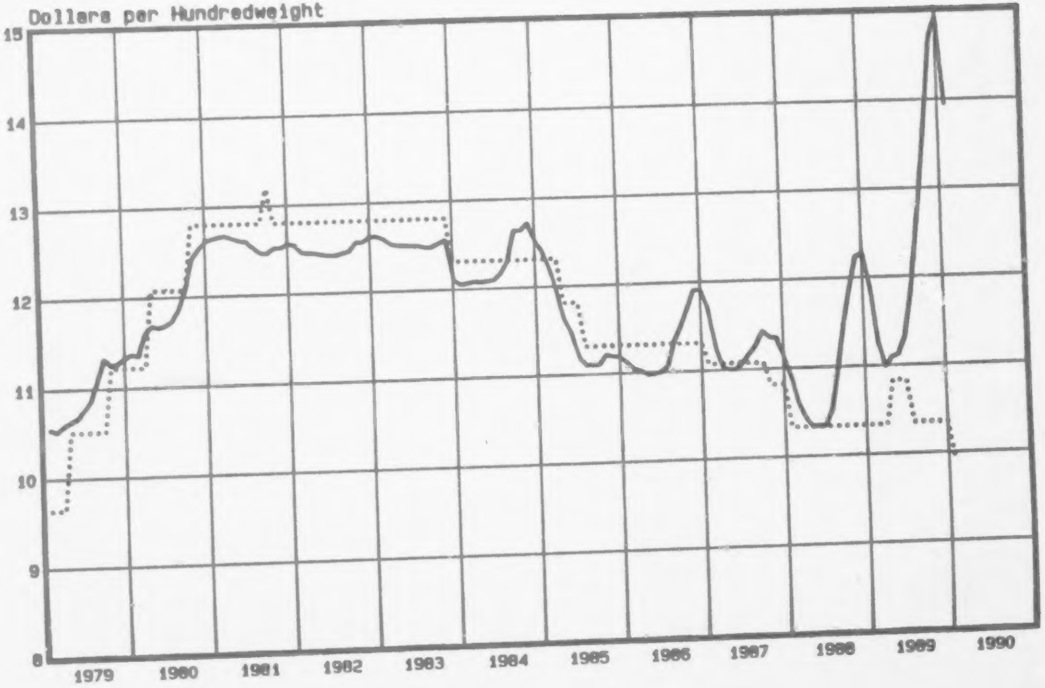
> WHEREAS, the Agricultural Marketing Agreement Act of 1937 is the enabling legislation for the Federal milk market order program which provides an orderly and equitable marketing system for Grade A milk producers through which market administrators have provided integrity in verification and audit of handler records as well as dissemination of necessary market information; and
>
> WHEREAS, this essential element of national dairy policy has come under attack by parties whose aims are opposed to those of dairy farmers;
>
> BE IT RESOLVED, that AMPI members must be alert to threats to this system and stand ready to register their support for its continued use when necessary. Maintaining the Class I classification for reconstituted milk products under Federal milk market orders is essential to maintaining an effective classified pricing system.
>
> The M-W Price Series is used as the price mover in Federal milk market orders. AMPI will continue to study feasible alternatives to the M-W Price Series as a basic formula price under market orders, however, until a replacement deemed adequate is developed, we support continued use of the M-W Price Series in Federal order price development.
>
> BE IT FURTHER RESOLVED, that we continue to study, as part of the process of developing the 1990 farm bill, the potential benefits of amending Federal Milk Market Orders to effect change and provide greater equity among producers, including:
>
> 1) consideration of Federal Milk Market Orders on a wider, regional basis;
>
> 2) determination and setting of milk price basing points other than at Eau Claire, WI.;
>
> 3) the pricing of milk on a multiple component basis; and
>
> 4) the establishment of Class I price differentials based on cost of production and market utilization.

In response to this directive, substantial effort has been devoted to examining market order policy alternatives both within AMPI and through National Milk Producers Federation. AMPI is presently considering expanding its use of component pricing in paying producers for milk. Requests have been made for hearings to consider consolidation of a number of market orders in the AMPI operating area and other such moves are being considered. A number of amendments to the Marketing Agreement Act of 1937 as proposed by NMPF are being supported as a means of allowing the program to keep pace with market changes.

Overall, the outlook for the dairy industry is bright if we can provide a reasonably stable environment in which to operate. That needs to be the foremost goal of this legislation. We feel strongly that the program presented will accomplish that.

COMPARISON OF M-W PRICE FOR MANUFACTURING

GRADE MILK AND THE SUPPORT PRICE - 3.5% BF



The CHAIRMAN. Mr. Camerlo, getting the industry together, getting 75 percent of the industry together on anything I think is a great idea, and I said in my opening statement, there is one part of the proposal that confuses me. According to the proposal, it says 50 percent of the value of any product used in the donation program, whether school lunch, TEFAP, or any other program, would not be counted as a cost to the dairy program. Who would bear the cost of that other 50 percent under the proposal?

Mr. CAMERLO. Jim, I am going to ask you to answer that, if you would.

The CHAIRMAN. Jim, you want to respond?

Mr. BARR. Well, very simply, Mr. Chairman, it would be borne as the total costs of the programs are right now by the budgetary side, the Federal side of the dairy price support program. It would be a credit back to the Commodity Credit Corporation for half of the donation price. If there were a sale, for example, in the international market, we contemplate that we would get full credit for budgetary purposes for that sale.

The CHAIRMAN. What you are saying is that some way we would have to get payment back from the School Lunch Program budget to pay for it; is that it?

Mr. BARR. Well, there would be a budgetary credit to the Commodity Credit Corporation for that amount, yes, sir, at 50 percent of the value of the product.

The CHAIRMAN. In the statement it says that the present dairy program is creating distortion both in the market and the supply level of certain dairy products, and I know when I go home to Vermont, I find it hard to explain why USDA will cut the support price at the same time there is no product at CCC for distribution to our domestic feeding programs. I am a strong supporter of the TEFAP program and the various commodity programs. And yet, we have had to go out on the market to buy products, dairy products, cheese, milk, so forth, for these programs because there was nothing in CCC at the same time USDA is cutting the dairy price support, saying that there is a surplus.

So what causes that distortion? How would you explain that if you were before a group of concerned Vermonters? Or explain it to one concerned Vermonter anyway.

Mr. CAMERLO. Pat is sitting over there, and I know he is concerned, Mr. Chairman.

The CHAIRMAN. This is Pat. Pat Patterson is who he is referring to, let the record show.

Mr. CAMERLO. Mr. Chairman, that is one of the main problems we see today, and we think it is going to be on down the road and may become more critical, and that is the milkfat surplus. We have a big milkfat surplus today, and because it is in surplus that is all USDA is buying, and that is where they come up with their 9 billion pound, kicks over that 5 billion pound trigger. They estimate it at 9 billion pounds. And that is what we want to change. We want it on a total solids basis so that all products are being figured in the trigger.

The CHAIRMAN. We heard Dr. Gardner, and I want to make sure I state this accurately, but basically you are saying that even if the support price falls, the market price will always be there to provide income to the farmer. What happens to the dairy industry, and I am thinking from both producers and consumers, if the gap between the market prices and the support price is greater than, say, $2 or $3 because we have seen in the past few months as much as $4 or $5 difference?

And I might ask this of anyone of the panel members. Anybody want to tell me what happens in a case like that? We have these wide gaps? Mr. Lefebvre.

Mr. LEFEBVRE. Well, I think it creates price instability to the consumers. You tend to see the price will go up, but when our price drops, consumer price does not follow that same pattern. So I think it has a tendency to ratchet prices higher with the instability that we have seen.

The CHAIRMAN. So, for example, what happened in New York, milk prices kept going up, but even during the times that their prices were going up, the price to the farmer went down, but there was never a drop down. If anything, all that would do is stabilize at a certain plateau and then eventually go back up again. Are you saying—I do not mean to put words in your mouth—but are you saying that even if the price comes down to the farmer, usually it is not reflected to the consumer?

Mr. LEFEBVRE. It does not go quite as far. It does not come back to where the consumer price originally started from.

Mr. CAMERLO. Mr. Chairman, may I speak to that also?

The CHAIRMAN. I am sorry. Go ahead.

Mr. CAMERLO. Since 1980, the milk price support has fallen 23 percent, but retail dairy prices at the same time have increased 15 percent. Now all food prices have also risen about 25 percent, but I think that gets to the point that you are asking.

The CHAIRMAN. The producer is not getting that difference.

Mr. CAMERLO. The producer's support price has fallen 23 percent, and the consumer retail price has increased 15 percent in this same period of time.

The CHAIRMAN. And Mr. Peterson and Mr. Tucker, do you see the same thing or——

Mr. PETERSON. I would like to add just another aspect to that, Mr. Chairman. And that is that I think these wide variations—I am a dairy farmer myself, of course——

The CHAIRMAN. I know you are.

Mr. PETERSON [continuing]. But I see these wide variations as having a terrific impact on processors, too, and I think they need to, we need to recognize that they have a hard time in setting up their sales as to what the price is going to be when you get the M-W moving at $1.50 a month. It is very, very difficult for them to do the type of pricing that they need, and I think that we need a healthy industry there, and that is another reason that it is much more desirable to have the support price and the market prices closer together, if that is possible, and still be acceptable to everybody.

The CHAIRMAN. Mr. Tucker, how do you feel about that?

Mr. TUCKER. Mr. Chairman, there is an initial statement I would like to make, if that opportunity presents itself. But, we feel that the support price should be a floor that should be there. It should not generate milk, but be a bottom where prices do not level out.

The support price should not be something that would generate or continually generate production. We have had that happen at least twice. Once was in the 1980's when the support price was so high that it generated milk that got us into problems. So we think there should be a floor, but not at a level that generates production.

The CHAIRMAN. What happens if there is a significant difference between the support price and the market price? I mean say it starts getting up to the $3, $4 difference, what does that do? Does that change prices for the consumer? Does that——

Mr. ELKIN. Mr. Chairman, I think it is an absolute violation of the intent of Congress because that is what the price support program was supposed to do, stabilize prices to both consumers and dairymen. It is not doing that. As far as running processing operations, and all of us do through our membership in cooperatives, the situation becomes very difficult. The cooperatives operate on a cost basis. They return the money to the members. In AMPI, we market almost $3 billion worth of milk a year, and generally wind up with something under $5 million in "margins" or earnings that are allocated back to the members.

When we have price swings like this, the decline in inventory value drops to $11 or $12 million in just a day. When you are trying to work on small margins it is horrendous trying to run either a farm or the extension of our farms, our cooperatives.

The CHAIRMAN. Mr. Tucker, do you agree with that, sir?

Mr. TUCKER. We believe in Dairymen and in the Southeast that the support price should be a floor. The demand and the price for milk and dairy products should be generated as milk moves into the market or as supplies can be released locally. Prices are established or generated in the market to bring milk supplies in from distant areas. This we have to do in the Southeast.

The CHAIRMAN. Thank you. Senator Boschwitz.

Senator BOSCHWITZ. Well, Mr. Chairman, I would point out again that in the presentation of these gentlemen, there has not been a single word about marketing. That there has not been a single word about how to sell more of their product.

The CHAIRMAN. It may be in their written statements. You know we ran—each of them will have their full statements placed in the record.

Senator BOSCHWITZ. It may be in the written statement, but in that case it certainly is not foremost in their mind. And milk is a partnership between producers and consumers and marketers. And the only way to really make the affairs of dairymen better in my judgment is to increase demand for their product, not in some way to try to continually control supply. Over the years, you know, economic stability is the—I am trying to look at my notes here, Mr. Chairman. My notes say that it has been the same thing over all the years that I have been a member of this committee. I agree that there should be a change from fats to solids, and then my friend, Mr. Elkin from Wisconsin told me that they are not talking about controlling production; they are talking about managing production.

And then later on, he says, we are looking for something to control that production. I am in favor of redefining removals. I am not in favor of establishing a price floor that is going to be beget more production. That will beget more problems in the dairy industry, and could result in a two-tiered pricing system and that is going to result in assessments because I do not know what you call lower prices. If you are going to start paying assessments, that is a reduction as much as any lowering the price, and I certainly do not favor lowering of the prices.

I probably politically should just undertake to greet your program if you really do have 75 percent of your membership involved, and say to you that it is wonderful, but I continue to believe that we should promote the sale of the product. I have something here that I will give to members of the committee, but it was just a sign that was in a railroad station in Germany, and interestingly Coca-Cola paid for the sign. That little advertising down there in the corner means they paid for the whole sign. It is all about milk, a couple of items in tea, and a couple of items of coffee, but it has got milk with sugar, milk with honey, malted milk, buttermilk, hot milk with chocolate sprinkled on top, hot malted milk with chocolate on top, hazelnut milk, Nestle's chocolate in milk, cognac milk right down there.

The CHAIRMAN. What kind of milk?

Senator BOSCHWITZ. Cognac milk.

The CHAIRMAN. Oh, that would not be acceptable in Vermont. We do not do those kind of things.

Senator BOSCHWITZ. I know. You guys are straight shooters up there. Cafe au lait, mixed milch drinks, milk with fruit juice, milk with real banana blended in, milk with sanddorn. Sanddorn is a sea buck thorn or sallow thorn.

The CHAIRMAN. Milk with fake banana blended in.

Senator BOSCHWITZ. It is really an herb that frequently is used in buttermilk with fruit juice, buttermilk with blended—it does not sound too good. Buttermilk with fruit juice, but maybe it will sell.

The CHAIRMAN. It says cream is bubbled with steam as the coffee——

Senator BOSCHWITZ. Cream bubbled with steam. They are really merchandising it. They are not just trying to control production.

The CHAIRMAN. That is Germany.

Senator BOSCHWITZ. That is Germany. Yes, that is right, and there they have the same type of problems. I am looking forward to hearing from somebody as we go this morning. I wonder why the Milk Producers Federation has never become a cooperator with FAS, the Foreign Agricultural Service? Every other commodity group that I know of has become. But you just do not have any confidence that you are going to be able to export your product. I understand that Häagen-Dazs® is going to seek to export its product to Japan. And that would indeed be a nice use of fat. But again, I really have no questions.

The CHAIRMAN. Ben & Jerry's sends theirs to the Soviet Union.

Senator BOSCHWITZ. Great.

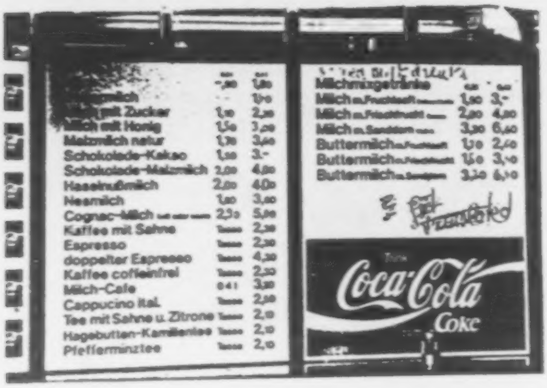
The CHAIRMAN. That is a Vermont company, Ben & Jerry. I mention that.

Senator BOSCHWITZ. I understand. I understand.

The CHAIRMAN. I do not know what this Häagen-Dazs® is. Who can even spell that? But Ben & Jerry's, those are real people. [Laughter.]

Senator BOSCHWITZ. It is true, though, Mr. Chairman, that there is an opportunity to market milk, and I hope that we will examine that.

[The information taken from German billboard on milk follows:]


Milchmixgetränke
Milch m. Fruchtsaft 1,50 3,-
Milch m. Frischfrucht 2,00 4,00
Milch m. Sanddorn 3,30 6,60
Buttermilch m. Fruchtsaft 1,20 2,40
Buttermilch m. Frischfrucht 1,60 3,20
Buttermilch m. Sanddorn 3,20 6,40
Milch mit Zucker 1,10 2,20
Milch mit Honig 1,50 3,00
Malzmilch natur 1,70 3,40
Schokolade-Kakao 1,50 3,-
Schokolade-Malzmilch 2,00 4,00
Haselnußmilch 2,00 4,00
Nesmilch 1,50 3,00
Cognac-Milch 2,50 5,00
Kaffee mit Sahne Tasse 2,30
Espresso Tasse 2,30
doppelter Espresso Tasse 4,30
Kaffee coffeinfrei Tasse 2,30
Milch-Cafe 0,4 l 3,30
Cappucino ital. Tasse 2,50
Tee mit Sahne u. Zitrone Tasse 2,10
Hagebutten-Kamillentee Tasse 2,10
Pfefferminztee Tasse 2,10
Coca-Cola
Coke

MEMO

March 6, 1990

TO: Rudy
FROM: Debra

RE: Translating the milk bill board ~~from~~ in Railroad Station in Germany

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Milch	Milk
Buttermilch	Buttermilk
Milch mit Zucker	Milk with Sugar
Milch mit Honig	Milk with Honey
Malzmilch natur	Malted Milk
Schokolade-Kakao	Hot Milk with chocolate sprinkled on top
Schokolade-Malzmilch	Hot Malted Milk with chocolate on top
HaselnuBmilch	Hazelnut Milk
Nesmilch	Nestle's chocolate in Milk
Cognac-Milch (kalt oder warm)	Cognac Milk (cold or warm)
Kaffee mit Sahne	Coffee with cream
Espresso	Espresso
doppelter Espresso	double Espresso (double the glass size)
Kaffee coffeinfrei	Caffein free coffee
Milch-Cafe	Cafe au lait (hot, 1/2 coffee & 1/2 milk)
Cappucino ital.	Cream is bubbled with steam as the coffee is being made, then added to the coffee.
Tee mit Sahne u. Zitrone	Tea with Cream and Lemon
Hagebutten-Kamillentee	Rosehip-Chamomile Tea
Pfefferminztee	Mint Tea
Milchmixgetranke	Mixed Milch drinks
Milch m. Fruchtsaft (Erdbeer, Vanilla)	Milk with fruit juice (Strawberry, Vanilla)
Milch m. Frischfrucht (Banana)	Milk with real banana blended in (Banana)
Milch m. Sanddorn VILC*A	Milk with Sanddorn Sanddorn is a sea buck thorn or sallow thorn. It's a healthy herb that's frequently used in drinks.
Buttermilch m. Fruchtsaft	Buttermilk with fruit juice
Buttermilch m. Frischfrucht	Buttermilk with blended Banana
Buttermilch m. Sanddorn	Buttermilk with Sanddorn

This was translated by the Congressional Research Service.

Mr. ELKIN. Mr. Chairman, could I give a brief response? I appreciate, Senator, what you do selling root beer milk at the Minnesota State Fair. I am sure that helps, and maybe we should have a State fair year round, but we are concerned about selling. We spend $200 million in advertising every year. Maybe we are not doing the best job we can with it, but we are doing it, so we are committed to advertising and selling.

Senator BOSCHWITZ. That is a little amendment that I put on here one year to get you guys to do that.

Mr. ELKIN. And you were instrumental in putting it in. We appreciate that. But as far as selling, the dairy industry in the 1970's had a commercial disappearance of about 120 billion pounds. In the 1980's, it has gone up to about 144 billion so we are a growth industry. There is no question about it. But unfortunately, like General Motors, at times we can produce more milk than we can sell, and what we are trying to do is to manage the inventory—I am sorry if I said control—manage our supplies so that we can meet the market needs, not always wind up breaking our prices with too much. That is really all. And that does not happen every year, but it will happen some time.

Senator BOSCHWITZ. Well, as you know, the growth of sales in the dairy industry has not come where the money is, and that is in Class I. It has come instead with manufactured products, and it has come because various people have been innovative with respect to cheeses and cottage cheeses and yogurts and things like that. There is no reason that that kind of innovation can also be found in other, and maybe it is nice of you to mention the fact that we try to do this in Minnesota and it is cute and all that kind of stuff, but it is serious. There is no question that you can sell more milk, and you can sell the more profitable elements of dairy as well. Thank you, Mr. Chairman.

Mr. BARR. I just wanted to add, Mr. Chairman, the Dairy Board has become a cooperator with FAS.

Senator BOSCHWITZ. The National Milk Producers Federation or the Dairy Board?

Mr. BARR. The National Dairy Board.

Senator BOSCHWITZ. Is that right?

The CHAIRMAN. Before I yield to Senator McConnell, I do want to emphasize how much I am in agreement with Senator Boschwitz. It is not just the promotion, but it is also the developing of products. It needs to go hand in hand. There also has to be a realization that consumer tastes change. There are a whole number of reasons. Health, lifestyles and so on. The lowfat products, all these things become more and more acceptable or appealing. I think the dairy industry has improved considerably in their promotion. But I think you also have to develop a product sometimes to go along with the promotion.

Senator BOSCHWITZ. Well, when——

The CHAIRMAN. We could put all the things in and Senator Boschwitz was one of the leaders in this in getting the mechanics there for the promotion, but you have to have the product to promote, too.

Senator BOSCHWITZ. Well, they have a pretty good product. But you know if the dairy industry battles itself, for instance, with bST, you are going to get more of these columns that say that milk is not wholesome and so forth, and, boy, that is destructive. Recently, they did some stuff in New York, I understand, and the demand for milk dropped by 4 or 5, 6 percent, and those marginal percentages is where the money is.

The **CHAIRMAN**. We have some who get invited to come up to Vermont periodically so they can do a press conference at our airport, get their face on the TV news that night and their name in the paper the next day, saying dire things about milk and leave. I am never quite sure what those who invite them think they are gaining by it because what they end up doing is hurting badly, I think, some of the dairy farmers who have to work very hard, have to pay the taxes, the mortgage and everything else.

We are getting off the subject, and I will yield to Senator McConnell.

Senator **MCCONNELL**. Thank you, Mr. Chairman. I want to welcome all of you here, in particular Ray Moss Tucker, who has the good judgment to live in the same county with my parents. And Ray, of course, I read your testimony last night, and as everyone knows, we are in a milk deficient section of the country. I am curious as to what extent, if any, you are not in agreement with those around you. In particular, do you support the CAP recommendation that was suggested earlier, and also if you could highlight your testimony briefly, I would be interested in hearing that.

STATEMENT OF RAY MOSS TUCKER, PRESIDENT, DAIRYMEN, INC., LOUISVILLE, KY

Mr. **TUCKER**. Thank you, Senator McConnell, and Mr. Chairman.

INTRODUCTION

I have submitted a more complete statement for the record, and would like to summarize my remarks at this time.

Dairymen, Inc. represents 5,000 dairy farmers located in 16 Southeastern States.

Today, I also appreciate this opportunity to present not only the views of our membership, but also those of Coble Dairy Products Cooperative of Lexington, North Carolina; Tampa Independent Dairy Farmers Association of Tampa, Florida; and the Florida Dairy Farmers Association of Fort Lauderdale, Florida.

As this committee prepares to draft the 1990 farm bill, may I also say that Dairymen's Cooperative Creamery Association of Tulare, California has asked that I indicate they share our view that the 1985 farm bill has worked and worked well, and with few modifications should be extended.

Also, those that have asked that we add their support to this position is the Danish Creamery Association of Fresno, California; San Joaquin Valley Dairymen of Los Banos, California; Glenn Milk Producers Association of Willows, California; and Humboldt Creamery Association of Fortuna, California. All asked that I indicate to the committee that they favor with few minor exceptions extending the 1985 farm bill, and let me say quickly that we think the 1985 farm bill has worked and worked well.

PRICE SUPPORT ADJUSTMENT

With a few minor adjustments, price support adjustment should continue to be made gradually, and they should be limited to 5 percent of the support price or 50 cents a year, whichever is less. And, to reflect more accurately the market for milk and dairy products, CCC purchases converted to a milk equivalent basis should be converted using total solids or whole milk basis rather than a milkfat basis.

THE SECRETARY SHOULD HAVE THE DISCRETIONARY AUTHORITY TO IMPLEMENT TEMPORARY AND TARGETED PRODUCTION ADJUSTMENT PROGRAMS TO MOVE THE MARKET INTO RELATIVE BALANCE

Should the market experience a shock that will require production adjustments more rapidly than price adjustments alone would bring about, the Secretary should have the discretionary authority to implement temporary and targeted production adjustment programs to move the market into relative balance.

PRICES HAVE TO BE AT A LEVEL THAT WILL ATTRACT AN ADEQUATE SUPPLY OF MILK LOCALLY OR FROM DISTANT MARKETS OR FROM BOTH ON A YEAR-ROUND BASIS

To meet our area's futures needs, prices have to be at a level that will attract an adequate supply of milk locally or from distant markets or from both on a year-round basis. Therefore, the value of milk purchased at the margin, theoretically should establish a general price level for the local market.

MILK MARKETING ORDERS

Federal milk marketing orders we strongly support. They continue to be the main basis for moving fluid milk from surplus to milk deficit regions of the country in an orderly manner.

CAP PROGRAM

Back to your original question, do we support the CAP program? We in the Southeast have felt that market driven pricing provided for in the 1985 farm bill should continue to be the principle basis for price support adjustments. Yes, we do have a problem with the CAP program because we think it leads to supply management.

[The prepared statement and attachments of Mr. Tucker follow:]

Statement of

DAIRYMEN, INC.,

COBLE DAIRY PRODUCTS COOPERATIVE,

TAMPA INDEPENDENT DAIRY FARMERS ASSOCIATION AND THE

FLORIDA DAIRY FARMERS ASSOCIATION

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY

UNITED STATES SENATE

With respect to

United States Dairy Policy

March 7, 1990

Ray Moss Tucker, President
Dairymen Inc.
10140 Linn Station Road
Louisville, Kentucky 40223
(502) 426-6455

Mr. Chairman, I am Ray Moss Tucker, President of Dairymen, Inc. and a dairy farmer. My 100 cow family dairy farm and residence is located at Finchville, Kentucky. The corporate offices of Dairymen, Inc.; a regional milk marketing cooperative representing 5,000 dairy farmers located in 16 states, mainly in the Southeast, are located at 10140 Linn Station Road, Louisville, Kentucky 40223.

I appreciate this opportunity to present the views of our membership and those of Coble Dairy Products Cooperative of Lexington, North Carolina; Tampa Independent Dairy Farmers Association of Tampa, Florida; and the Florida Dairy Farmers Association of Fort Lauderdale, Florida, on the dairy price support and Federal milk marketing order programs as this committee prepares to draft the 1990 Farm Bill. I would also like to indicate that Dairymen's Cooperative Creamery Association of Tulare, California; Danish Creamery Association of Fresno, California; Glenn Milk Producers Association of Willows, California; Humboldt Creamery Association of Fortuna, California; and the San Joaquin Valley Dairymen of Los Banos, California have asked that I indicate they share our view that the 1985 Farm Bill has worked well, and with few modification should be extended.

My remarks today will focus on the following items: (1) the need for stability in milk marketing, (2) the objectives of U.S. dairy policy, (3) the 1985 Farm Bill, (4) 1990 Farm Bill recommendations, (5) Federal milk marketing orders, (6) and the Southeast milk market.

MARKET STABILITY

Over the years, I and other dairy farmers have operated with the expectation that U.S. dairy policy, while not always the same, will permit us, over a period of time, to independently adjust our farming operations to changing market and production conditions. The market stability provided by the dairy price support program and Federal market order program have made that possible. Without these complementary programs family dairy farmers could not make the capital commitments required in dairying today. The risks associated with a large investment and highly unstable market prices would be to great.

The need for stability in milk marketing is due in large part to the basic characteristics of milk production and raw milk marketing, which are fundamentally the same today as they were when market stabilization programs were first implemented by state and federal governments to improve milk marketing conditions.

Milk continues to be a highly perishable product that can be stored in its original form for only a very short period. In the short run, the demand and the supply of milk are very price inelastic. The structure of the dairy industry is highly concentrated at the processor and the retail level, but remains highly competitive at the farm level. And milk production varies greatly from spring to fall.

Federal dairy policy, however, has been effective in reducing the market risks resulting from highly variable prices that can occur under every slightly changed maket condition. Consumers have benefited from the lower average price associated with reduced producer risks, and readily available supplies of fresh fluid milk and dairy products.

U.S. DAIRY POLICY

The assurance of a continuously adequate supply of fresh fluid milk for consumers at relatively stable price levels has remained the objective of U.S. Dairy policy since the 1930's. The dairy price support program continues to have as its objective an adequate milk supply for the domestic market -- now and in the future. As a result producer returns must be sufficient to bring forth the volume of milk that is demanded now and that will be demanded in the future without stimulating production to the point that surpluses become excessive and prolonged periods of depressed prices occur.

Therefore, our cooperatives continue to advocate a dairy price support program in which the support level provides a floor below which milk prices should not fall. The support price should provide a safety net to prevent disastrously low producer prices, while permitting the market to establish a general price level.

Government purchases of manufactured dairy products is, as in the past, the most effective, efficient, and responsive mechanism for supporting milk prices and for removing unneeded supplies from the market.

Our cooperatives also, strongly support the milk marketing order program, which was implemented to assure an adequate supply of milk for fluid use in all markets. The program establishes a set of rules, regulations and pricing provisions to attract milk for fluid use, in an orderly and efficient manner, from the local area or from distant areas, and in sufficient quantities to meet the needs of local fluid milk markets.

Section 22 import quotas, which limit imports to levels that will not materially interfere with the attainment of the objectives of our domestic dairy policy, are also an essential component of U.S. dairy policy. Without adequate import restraints the U.S. market, the second largest in the world, would become the dumping ground for much of the world's subsidized dairy surplus.

Over the 40 year period that the Federal dairy price support program and Federal milk marketing order program have been in effect they have worked well. Only twice in the last four decades has milk production exceeded commercial use to the extent that burdensome surpluses of dairy products have been held by the Commodity Credit Corporation (CCC) for a significant period. The first was in the early 1960's and the other in the 1980's. In each case the level of support for milk and dairy products was set too high, production expanded and a period of readjustment followed. This led to a significant change in U.S. dairy policy in 1985.

THE 1985 FARM BILL

This Committee and the Congress, at the urging of the administration, taxpayer, and consumers -- and in an atmosphere of budget austerity -- implemented the 1985 farm bill, which had as its primary objective increased market orientation through a gradual realignment of supply and demand through price support adjustments.

In reflecting on the changes that have taken place in the dairy industry since 1985, the general consensus is "the 1985 Farm Bill" has worked!

While the dairy policy changes adopted in 1985 were not without controversy and have not been without pain, they have been effective. Production and consumption are up, producer prices are up, supply and demand are in relative balance, government inventories of cheese and powdered milk have disappeared, and the support price for butter is being adjusted to reflect more closely its commercial value in the world market.

Noteworthy, as well, is the change that has taken place in the role of the support price. With the support price now $3.00 per hundredweight (cwt.) or 25 percent lower than at the beginning of the decade, the support price continues to serve as a safety net and not the primary factor in establishing dairy product prices. For 1989, the M-W price, Minnesota-Wisconsin price for manufacturing grade milk, averaged $1.34 above the average for 1988 and $1.76 above the prevailing support price of $10.60 per cwt., and it is expected to remain well above the current support price of $10.10 this year -- perhaps longer.

1990 FARM BILL RECOMMENDATIONS

Mr. Chairman, having moved toward a relative balance between supply and demand for dairy products, having reduced government outlays associated with dairy price support activities of the Commodity Credit Corporation, and having established a marketing environment in which producer prices are being established in the market well above the support price, our cooperatives do not see the need to drastically change the market orientation of the dairy support program or the program provisions of the 1985 Farm Bill. Instead, we propose four refinements that will help assure the objectives of federal dairy policy continue to be met in an increasingly market oriented environment.

First, price support adjustments should continue to be made gradually. They should be limited to $.50 or 5 percent of the prevailing support price per year, whichever is less. More severe reductions would impact sharply on producer incomes, providing little opportunity for farmers to make adjustments in their operations.

Second, to more accurately reflect the market for milk and dairy products, CCC purchases, converted to a milk equivalent basis, should be converted using total solids or a whole milk basis rather than a milk fat basis. The continued use of a milk fat equivalency calculation does not recognize the true demand for milk and products other than butter.

Third, the maintenance of a meaningful and realistic support level is essential if the price support program is to maintain the productive capacity of the dairy industry at a level that over time will assure consumers ample supplies of wholesome dairy products at reasonable prices. To provide that assurance, the support price should not be permitted to fall freely. During periods of short-term market disruptions created by trade disputes the introduction of new production technologies or other market shocks, wide fluctuations could occur in producer and consumer prices. Therefore, we encourage the Committee to maintain, beginning in 1992, the support price for milk within $1.00 of the U.S. average price for manufacturing grade milk in the previous year.

Fourth, should the market experience a "shock", that would require production adjustments more rapidly then price adjustments alone would bring about, The Secretary of Agriculture should have discretionary authority to implement temporary and targeted production adjustment programs to help bring the market into relative balance. If the support price is permitted to move when warranted toward a market clearing level, and a meaningful support level is maintained, we believe the U.S. will maintain an acceptable balance between supply and demand without the implementation of supply control programs. One of the best inventory management programs is advanced planning and a realistic assessment of the supply and demand conditions of the market.

As increased market orientation occurs domestically, Section 22 import quotas -- which prevent subsidized exports, dumping and other unfair trade practices from undermining domestic stabilization programs -- will continue to be needed. While trade barriers may, over time, be reduced under a new trade agreement, Section 22 authorities will provide the basis for responding to countries that do not adhere to or are not party to an agreement. The U.S. market must not become the dumping ground for dairy products from countries that seek an unfair advantage in foreign trade, or that seek to circumvent a new trade agreement.

As one of the most efficient producers of dairy products in the world and largest dairy markets, the U.S. should not adopt a dairy policy that leads to circumstances in which subsidized imports are promoted as the means by which domestic demand will be met.

FEDERAL MILK MARKETING ORDERS

Turning now to the second component of U.S. dairy policy, the milk marketing order program, let me emphatically state that the Federal milk marketing order program continues to be essential to the maintenance of orderly marketing of fluid milk.

Timely administrative decisions that recognize changes in the industry, markets and the economic variables that influence the movement of fluid milk can go a long way to assure that milk supplies needed for fluid use are available from local or distant markets on a regular basis and in sufficient quantities to meet consumer demand. Procedures should be developed and personnel provided to carry out timely reviews and revisions of Federal orders.

The slowness with which the Department of Agriculture is moving following the April, 1989 hearing on a proposed order -- supported by producers and processors -- for the North Carolina and South Carolina areas, and the Department's failure to adjust Class I differentials from 1960 to 1985 are examples of administrative delays which have failed to address problems within the industry in a timely manner. Instead of asking the Congress to rescind the requirement that it review and take action on petitions to implement Marketwide service payments within 120 days, we would prefer the Department make available the personnel and resources to respond in a timely manner to all such requests.

Class I differential adjustments contained in the 1985 Farm Bill recognized that significant increases in transportation costs had occurred during the period 1960-1985 and that they had not been reflected in Class I differentials. While the adjustments mandated in 1985 left the transportation component of Class I differentials representing only about 53 percent of the actual cost of moving milk to Southeastern markets, the adjustments help assure that the markets are supplied as efficiently as possible -- from local or distant sources. Class I differentials established in the 1985 farm bill should be retained. They are subject to review and adjustment by the Secretary of Agriculture.

Classified pricing, which is required in all Federal milk marketing orders by the Agricultural Adjustment Act of 1937, as amended, should also be retained. Down allocation and compensatory payments, when Class III products are used to reconstitute fluid milk, are required to maintain the integrity of classified pricing, which establishes the value of milk based on the end use to which it is put. In recognition of emerging technologies and the cost savings which may be associated with new developments, we believe milk concentrated by reverse osmosis can be shipped between orders without destroying the the classified pricing system if, on a milk equivalent basis, the milk is priced as bulk fluid milk shipped inter-order. To do so would permit the new technology to be utilized and the shipper or receiver to realize transportation savings without destroying classified pricing.

THE SOUTHEAST MILK MARKET

The Southeast is a deficit fluid milk market. It is also a growing milk market. As indicated in the Tables (1 and 2), respectively, the population in our marketing area has increased 18 percent since 1980, while package milk sales are up 10 percent since 1985. Production in the area is down 1 percent from 1985, and as a percent of U.S. production as well (Table 3). Fluid milk in bulk and packaged form continues, therefore, to be brought into the region on a regular basis.

The quantity of milk required from other areas in a normal year ranges from a low of about 2.5 percent in the spring to 10 percent or more during the fall months. In July, August, September, and October, 1989, an estimated 235 million pounds of fluid milk was shipped to Southeast markets. The total cost of the supplemental milk delivered to the Southeast, has averaged more than $4.00 per hundredweight above the prevailing price in the Southeast. The premium indicates milk prices in the region were inadequate to generate local supplies or attract substantial quantities of milk from more distant markets at prices prevailing in the region.

To meet the area's expanding needs, prices have to be at a level that will attract an adequate supply locally or from more distant markets, or from both. Theoretically, the value of the milk purchased at the margin, should establish the general price level for the local market.

Our dairy farmers want to be free to compete in the Southeast fluid milk market at price levels which reflect, to the the extent possible, the cost of purchasing and transporting fluid milk from those areas that balance the region's fluid milk needs.

Twice in the last six years the Southeast has experienced non-price market distortions and their accompanying problems -- first, during the diversion program and again in the dairy termination program. During both of these periods, higher than normal amounts of milk had to be brought into the area to meet the demand for Class I or fluid milk. In the absence of marketwide service payments, the added cost of this supplemental milk was borne by those producer groups or processors who actually imported the milk. An inability to move all prices to the level of the cost of the marginal supply, or equitably distribute the costs, created serious inequities between the producers and/or processors that purchased supplemental milk and those that did not. Such circumstances should be avoided in the future.

CONCLUSION

In conclusion, Mr. Chairman, the position of our cooperatives is consistent with and parallels the dairy policy recommendations of the National Commission on Dairy Policy, which was established at the direction of the Congress in 1985. The Commission, consisting of 18 dairy farmers and industry leaders heard testimony from 250 milk producers, processors, dairy leaders, and economists and agricultural policy analysts in the process of developing its list of policy recommendations submitted to the Congress March 31, 1988. They too shared the view that price support adjustments send the clearest market signals. With the refinements in the current program suggested, we feel the objectives of federal dairy policy will continue to be met during the period that will be covered by the 1990 Farm Bill.

Thank you for the opportunity to share our views on future U.S. dairy policy at this critical time. We look forward to working with you and the committee as the 1990 Farm Bill is drafted.

TABLE 1
POPULATION FOR SELECTED STATES, CENSUS YEARS
(000's)

State	1960 (actual)	1970 (actual)	1980 (actual)	1990 (projected)
Alabama	3,267	3,444	3,894	4,181
Florida	4,952	8,791	9,746	12,818
Georgia	3,943	4,588	5,463	6,683
Kentucky	3,038	3,221	3,661	3,745
Maryland	3,101	3,924	4,217	4,729
Mississippi	2,178	2,217	2,521	2,899
North Carolina	4,556	5,084	5,882	6,690
South Carolina	2,383	2,591	3,122	3,549
Tennessee	3,567	3,926	4,591	4,972
Virginia	3,967	4,651	5,347	6,157
Total	34,952	42,437	48,444	56,423

Sources: Statistical Abstracts 1989.
Census Bureau, Current Population Report
p-25 1017.

TABLE 2
SOUTHEAST MILK PRODUCTION
SELECTED YEARS

	1981	1982	1983	1984	1985	1986	1987	1988	1989
Alabama	582	580	573	536	547	529	502	522	523
Florida	2,082	2,109	2,113	1,898	2,038	2,153	2,209	2,350	2,447
Georgia	1,396	1,412	1,395	1,274	1,300	1,260	1,160	1,235	1,303
Kentucky	2,281	2,364	2,414	2,106	2,222	2,327	2,338	2,327	2,265
Louisiana	993	975	954	893	911	887	881	930	950
Mississippi	845	900	883	847	876	836	786	794	767
North Carolina	1,654	1,686	1,711	1,649	1,748	1,695	1,555	1,555	1,533
South Carolina	552	567	573	541	584	565	487	481	463
Tennessee	2,296	2,326	2,250	2,152	2,235	2,221	2,207	2,213	2,192
Virginia	2,009	2,059	2,070	1,967	2,102	2,096	2,019	2,000	1,991
Total S.E.	14,690	14,978	14,936	13,863	14,563	14,569	14,144	14,407	14,434
% of U.S.	11.08	11.03	10.69	10.23	10.17	10.11	9.92	9.90	10.00
Total U.S.	132,634	135,802	139,672	135,450	143,147	144,080	142,557	145,527	144,252

Source: USDA

TABLE 3
TOTAL PACKAGE MILK SALES IN SOUTHEASTERN FEDERAL MILK MARKETING AREAS, FROM ALL SOURCES
1983-1989[1]

1983	6,448,005,335
1984	6,509,128,713
1985	6,659,174,579
1986	6,802,463,863
1987	6,831,115,203
1988	6,938,370,421
1989	7,348,771,683

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[1] Southeastern Federal Orders Include:

Georgia, Alabama-West Florida, New Orleans-Mississippi, Greater Louisiana, Upper Florida, Tampa Bay, Southeastern Florida, Tennessee Valley, Lou-Lex-Evansville, Nashville

TABLE 4
TOTAL PACKAGE MILK SALES IN SOUTHEASTERN FEDERAL MILK MARKETING AREAS, FROM ALL SOURCES
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1985	6,659,174,579
1986	6,802,463,863
1987	6,831,115,203
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[1] Southeastern Federal Orders Include:

Georgia, Alabama-West Florida, New Orleans-Mississippi, Greater Louisiana, Upper Florida, Tampa Bay, Southeastern Florida, Tennessee Valley, Lou-Lex-Evansville, Nashville

Senator McCONNELL. I gather your conclusion would be that a situation such as we experienced from July to October 1989 when 235 million pounds of fluid milk was shipped into the Southeast, probably came right down I-64 right past your headquarters.

Mr. TUCKER. Part of it did.

Senator McCONNELL. I gather it is your view that there is simply nothing that could be done about that, and that is just a way it is going to be.

Mr. TUCKER. Well, I do not think we will be a milk sufficient area.

Senator McCONNELL. Yes.

Mr. TUCKER. We would like for it to be a less milk deficit area. But, we see change. The Southeast obviously is a very fast-growing market. As you well know, further south, Florida has a rapidly expanding population. And we see usage has risen. So we are getting declining production and a rise in usage, which Senator Boschwitz, I am sure, likes.

Senator McCONNELL. Yes, but I gather you do not like it.

Mr. TUCKER. Well, we hate to lose the production, but we like to see the increase in consumption.

Senator McCONNELL. Well, what, if anything, should be done to get production up in the Southeast, or is that possible?

Mr. TUCKER. Well, price will do it. It will help. It will help.

Senator McCONNELL. What about—I do not think any of you have addressed the technological improvements that may be coming and what that may do to production increases. I am curious to get some of the observations, not only from you, Ray Moss, but others about what could happen to the whole program if production all of a sudden dramatically improves because of technological advances.

Mr. TUCKER. Senator, I feel very strongly that technology is going to increase. And this is a personal view. I do not feel that it is going to have the impact that some would like to make us believe it is going to have. You know, if we do away with technology, we go back and do away with calf hutches, artificial breeding, those things that have moved us as we have come along through the years. I think any other technology, without mentioning any by name, will continue to see us make improvements to where the dairy farmer can be more proficient throughout the country. I do not share the concern personally that it is going to be something that is going to make milk run out our ear.

Mr. BARR. Very briefly, Senator, our economic analysis which is a part of our full statement shows that bST will create an initial jump about 1992, will cause a spurt of milk production during that particular year that will create some supply/demand imbalances, one of the reasons we think it is important to have standby supply management to deal with that specific timeframe, and then at that point it would level off and continue at about the same level of production, only just slightly higher. The problem will come in 1992, perhaps 1993, when the industry is really beginning to fully implement this new technology.

Senator McCONNELL. If your projections are accurate, might it not be better, following up on what Senator Boschwitz was saying, might it not be better to, rather than thinking in terms of supply management, thinking in terms of exporting the excess?

Mr. BARR. Well, I think we do think in terms of exporting. However, when you take a look at what our problem is today, we do not have, and probably will not have, during the lifetime of the 1990 farm bill a surplus of fluid milk or a surplus of powder or a surplus of cheese. What we have and what we think our CAP program addresses, we have a structural surplus of butterfat, and that is going to continue throughout the farm bill because that is the same condition that the whole world is in. So we would be trying to export surplus butter into a world that has surplus butter. So exports do not seem to be the immediate solution to the problem of surplus butterfat. We have to address that on the farm at the production level, try to decrease that a little bit.

Senator McCONNELL. Finally, obviously Ray Moss and, I gather on behalf of the southern producers, is not particularly interested in major modifications of the 1985 bill. Does that put him at variance with everybody else here?

STATEMENT OF CARL PETERSON, VICE CHAIRMAN, AGRI-MARK, INC., METHUEN, MA

Mr. PETERSON. If I may say, I represent Agri-Mark, which is a northeast cooperative of about 2,000 members. We are in support of the Federation position. We would admit, the same as Ray Moss Tucker does, that everything in there is not completely palatable to every member who was there, but having taken part in that debate that went on there last week, and I have been involved in this dairy industry for a few years now, I have to say that it was a democratic process and people came there ready to do business, and all, I do not think anyone would disagree with me, that all of those including Ray Moss were heard, and when it came out, Senator Leahy, I think has said, it was better than a 75 percent consensus, and I think that is good and we do support the position. Naturally there are some things within that position that we would favor more than others. We think that in our area that a whole herd buyout, properly administered uniformly, is a better tool to use than a quota program.

Senator McCONNELL. It also gets great press, too, does it not?

bST

Mr. PETERSON. Well, yes, whether that is negative or positive. I would like to address another thing that you were talking about, technology, Senator, here a second ago. And I hope you are thinking technology beyond bST. My attitude on that is I wished I were a younger man because I think it is exciting the future that we are facing. I tell my sons that are home on the farm. But we have to learn to control these things. We have the consumer to worry about, and what we need to do is design a program that will benefit the farmers that take the risk and go out and do these things and hopefully keep some of the money back on the farm. We know the consumer is going to benefit. We know the general public is going to benefit. But let us keep a few pennies back and keep some of the boys home on the farm, too.

[The prepared statement of Mr. Peterson follows:]

Agri·Mark
Mailing Address: P.O. Box 5800
Lawrence, MA 01842
508-689-4442

Testimony of
Carl Peterson, Vice Chairman
Agri-Mark, Inc.
before the
U. S. Senate Committee on Agriculture

March 7, 1990

Distinguished Senators:

My name is Carl Peterson. I am a dairy farmer from Delanson, New York, and Vice Chairman of the Agri-Mark Board of Directors. Agri-Mark is the largest dairy cooperative in the New England market. The cooperative markets more than 2 billion pounds of milk annually from its 2,100 farmer members. On behalf of those members, and particularly those 726 Vermont farm families who are constituents of Senator Leahy, I would like to thank you for this opportunity to discuss our hopes and concerns with you.

Agri-Mark supports the National Milk Producers Federation position on the 1990 Farm Bill. The Federation policy position has widespread support throughout the country. It was approved by a large majority of its member organizations after undergoing the democratic process of serious debate and compromise. Agri-Mark believes that many of the aspects of this policy have considerable merit for solving the dairy industry's current and future problems.

In particular, we agree that the support price should be returned to its 1989 level of $10.60 per hundredweight. Dropping the support price at a time of milk shortages and high market prices was an economically irresponsible act. The price support program was designed to stabilize prices for both

Office Location: 100 Milk Street Office Park • Methuen Massachusetts 01844

consumers and producers. Due to the Secretary's action on January 1, 1990, milk prices could fall up to $5.00 per hundredweight within a five-month period, and then shoot right back up again by this fall. This severe price gyration is not good for dairymen, milk handlers, or consumers.

Agri-Mark acknowledges that we do have a butterfat problem in this country. We are pleased that the Federation position addresses that issue. A component adjustment program (or CAP for short) has great merit in theory. It sends the proper signals to dairy farmers about the value of their butterfat in the marketplace. It also distinguishes between a butterfat surplus and a milk surplus.

If we have any misgivings about the CAP program, they would involve the establishment of quotas and the ability of the program to provide sufficient economic incentives for dairymen to reduce butterfat production. Even at assessments of 75 cents per pound of butterfat, it may still be economically beneficial for dairymen to maintain their butterfat production. If that is the case, it may be better to establish a general butterfat assessment on all producers and avoid the complexity and other problems inherent in developing any quota-type system.

Agri-Mark supports the Federation compromise of letting the Secretary of Agriculture decide which of three milk supply control programs should be implemented when milk is truly in surplus. We believe that the inclusion of a uniform whole herd buyout program as one of the options was a prudent decision. A uniform buyout has the distinct advantage of allowing voluntary producer participation while avoiding the establishment of bases and quotas required under two-tier pricing and a milk diversion program.

The whole herd buyout that was implemented as part of the 1985 Farm Bill was a success. It was cost effective for both the government and the dairy industry. However, it could be improved through two modifications. First, participation should be uniform by state. That is, the same percentage of production should be removed from each state to avoid the regional inequities experienced in the last buyout. In that buyout the Northeast, and in particular New England, lost a much greater share of its farms than most other areas of the country. This further increased the severity of milk shortages in the region. A uniform buyout would mean differing maximum bid levels by state.

Secondly, dairymen who participate in such a uniform buyout would be required to pay $10 per head for beef promotion instead of the normal $1 per head. Those dairymen can factor that additional cost into their bid levels prior to bidding. This could provide several million dollars for beef promotion to help sell that additional beef. Keep in mind that if a surplus develops, that beef will be coming to markets eventually, no matter whether the cause is a two-tier program, a milk diversion program, severe price support cuts, or a uniform buyout.

Agri-Mark strongly endorses the Federation's position in support of the Boehlert amendment in the U. S. House of Representatives and would recommend similar action in the Senate. If the government is going to limit CCC costs to a small fraction of what they were throughout most of the 1980's, then dairy program costs should not include those costs associated with meeting the obligations of school, military, charity and foreign aid programs. While Agri-Mark members strongly support the use of nutritious dairy products for these programs, the costs should be borne by all taxpayers, not just dairy farmers.

Finally, Agri-Mark is in agreement with the Federation in regard to the need for an industry-sponsored self-help program. Agri-Mark has been advocating such a program for the past several months and continues to do so.

Milk is unique, even among agricultural commodities. In its fluid form it is considered a necessity by most consumers. The demand for milk is relatively stable throughout the year, yet milk production is still seasonal in nature--this problem is highlighted by the highly perishable nature of milk, which prevents a long-term storage of fluid supplies. On the production side, it takes two years or more before a calf can enter the milking herd. In addition, unlike grain farmers, dairymen do not have the option to produce different commodities as milk prices fluctuate--their only option is to stay in business or go out of business entirely.

All these characteristics of the milk business contribute to the uniqueness of milk. They also explain why a small variation in supply of five per cent or less can result in a devastating variation in the price of milk. Hence the possible $5 price decline this spring.

During the past forty years the government has used the price support program as a mechanism to stop five percent of supply from driving the price of 100 per cent of the milk. If the government is no longer willing to provide this service, which has been so valuable to both producers an consumers alike, then the dairy industry would be better off by shouldering some of the responsibility themselves through a "self-help" program.

In such a program, dairymen would pay a small assessment to remove surplus milk from the market and sell it overseas or as subsidized sales to non-commercial domestic outlets.

In summary, Agri-Mark supports the National Milk Producers Federation position with a price support increase to $10.60; a mechanism to pay for surplus butterfat; a uniform whole-herd buyout; the Boehlert amendment; and an industry-sponsored self-help program.

Once again, thank you for this opportunity to discuss these matters with you.

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Senator DASCHLE. Senator Cochran. The time has expired, and I know that——

Senator McCONNELL. OK. I am sorry.

Senator DASCHLE [continuing]. Senator Boschwitz and Senator Cochran have been waiting patiently.

Senator McCONNELL. Thank you very much.

The CHAIRMAN. Incidentally, if I might just add a word in here. I am going to have to join with the Democratic and Republican leaders as part of the escort committee at a joint session that is going to take place in just a few minutes and will have to leave. I would hope that not only this panel but especially the next panel that is going to be directly affected by this, and I see so many people here whose opinions I strongly respect—Mr. Tipton, and Mr. Gaibler and Mr. O'Connell and Mr. Goldman—I may have some questions for the record for them.

I would hope that those who are following this issue will listen very closely, not only to what this panel has to say but also what the next panel has to say, because both the producers and the consumers and buyers of this product have a great deal at stake in this bill. We need very much the input of both groups. I thank Senator Daschle for taking over the chair for me.

Senator DASCHLE [presiding]. Senator Cochran.

Senator COCHRAN. Thank you, Mr. Chairman. Let me ask a couple of questions about the proposal that the Federation has made. On the CAP program, what would the effect be on a person who lives in a growth area and decides that he wants to increase production to meet the growing demand such as the situation described by Mr. Tucker in the Southeast? What would the effect of the CAP proposal be on a farmer who wanted to do that?

Mr. BARR. Looks like I get to answer that question. It basically depends upon how much the producer wants to increase production. There would be a substantial penalty involved for a producer who wants to substantially increase production while a CAP program was in place because the purpose of the program is to discourage production. He would have to make an economic analysis as to how much the penalty would be and whether it would be worthwhile and then once he had done that, he would make a decision to expand or not to expand. But there are provisions built in there that they could expand if they felt it was in their economic best interest to do so.

Senator COCHRAN. My next question is what happens under the proposed CAP program if a new person who has not been farming before wants to start up a dairy? This is after the psychiatric evaluation has confirmed that he is of sound mind. [Laughter.]

What would the effect of the CAP program be on him?

Mr. BARR. He would go through that same psychiatric examination, Senator, and he would basically get a butterfat base for his year equal to 75 percent of his first month's production. They would project that out for that entire year, and then in the second year of production, his butterfat base would be whatever that first year was in total.

Senator COCHRAN. Yes. Let me——

Mr. TUCKER. Senator, if I may add?

Senator COCHRAN. Yes, Mr. Tucker.

Mr. **Tucker**. If I understand the NMPF proposal, and Jim may want to correct me on this, and I am not being critical of National Milk—do not misunderstand—we just have a difference of opinion from our part of the country on the proposal. But, if I understand correctly, if I as a producer or any producer started out even, point-blank with the program, and we had to reduce 2 percent, and if the program was in effect 4 years out of the 5, then if I just try to stay even so I would not have to pay, by the end of the fifth year, my production would be down from 10 to 14 percent because you drop 2 percent every year.

Senator **Conrad**. Mr. Camerlo.

Mr. **Camerlo**. Let me speak to that, Mr. Chairman, Senator, if I might, Mr. Chairman. I took this program and gave it to the CSU, Colorado State University nutritionist and my herd. They do my nutrition programs. If we took this program, and I had to reduce production 2 percent, I could do it overnight by changing my feed ration at no decrease in production. When you relate that different value to butterfat, I can reduce the butterfat by reducing the fat in my ration which saves me 7 cents per cow per day.

Senator **Cochran**. That is why it is called component adjustment.

Mr. **Camerlo**. Yes, sir.

Senator **Cochran**. Instead of total production control.

Mr. **Camerlo**. And that may be one of the misunderstandings.

Senator **Cochran**. That is interesting. Well, we will look at it. I am sure we will carefully consider that, and the proposal that has been advanced by a representative of Dairymen, Incorporated. I have had a chance to look at some of the other statements, and unfortunately, we do have this conflict which requires some of us to go to the floor right now, but I wish I could be here to hear the other comments. But we will read the statements and try to make the best decisions that we can under the circumstances. Everybody is not going to be happy over it, but we will try to make everybody reasonably happy, whatever the balance will. Thank you.

Senator **Daschle**. Thank you, Senator Cochran. Senator Boschwitz.

Senator **Boschwitz**. A final question to the panel would be to Mr. Barr. I went through your testimony this morning, and just going through it again, would you please tell me what point in your plan has to do with selling the product that you produce?

Mr. **Barr**. Well, I think in the plan, Senator——

Senator **Boschwitz**. There is no mention, I might say, of anything like that in your testimony.

Mr. **Barr**. The plan is designed to recognize what appears to us to be a structural imbalance of butterfat that is going to occur throughout the lifetime of the bill. This is caused by a shift in consumption habits by our consumers from higher fat to lower fat products. We are contemplating, for example, as part of this legislation, to recommend a change in standard to create a standard for a "light butter." When you do this——

Senator **Boschwitz**. You apparently misunderstood my question, Mr. Barr. What in the National Milk Producers Federation proposal would have an impact or was directed toward increasing consumption?

Mr. **Barr**. We think that——

Senator **Boschwitz**. Not redefining how you are going to measure the surplus.

Mr. **Barr**. The proposal would lower the relative value of fat as compared to solids, and hopefully in that process it would increase consumption of butter and other higher fat products.

Senator **Boschwitz**. Oh, are you saying that in order to increase consumption that you have to lower the price?

Mr. **Barr**. There is some inelasticity of demand in butter. We do not really know fully given the change in consumption habits how much it is going to be increased, but, yes, sir, we do believe as we could indicate during the years of the farm bill that as prices came down, there was an increase in consumption?

Senator **Boschwitz**. There was an increase in consumption because of new products. Was there an increase in consumption even as prices came down of the fluid?

Mr. **Barr**. Fluid has been going up, but certainly not at the spectacular levels that cheese has.

Senator **Boschwitz**. I would suggest to you that fluid has come down 20 percent in the last 20 years, not gone up.

Mr. **Barr**. Consumption of whole milk has come down. Consumption of fluid milk, per se, per capita consumption has come down. I correct that, yes, sir.

Senator **Boschwitz**. And there is nothing other than this redefinition of fat in the National Milk Producers Federation plan that deals with consumption of the product?

Mr. **Barr**. That is correct other than I think we will have additional proposals in there for the committee to consider: the creation of a standard for light butter, which hopefully will increase consumption of that product.

Senator **Boschwitz**. Thank you.

Senator **Daschle**. Mr. Lefebvre.

Mr. **Lefebvre**. Yes, Senator, I am from Minnesota from the Senator's State. I think the thing that we are overlooking is the stabilizing factor that we are attempting to accomplish with this bill or with this proposal that will have the effect of increasing consumer consumption because when you stabilize the price and the consumer is not always looking at higher prices, I think that will have the effect of increasing consumption. I think that has been proven.

Senator **Boschwitz**. Mr. Lefebvre, what is the position of the people that you represent?

Mr. **Lefebvre**. OK.

Senator **Boschwitz**. And Mr. Elkin and others, on the milk marketing orders and the differentials in Class I pricing?

Mr. **Lefebvre**. I think in general Mid America Dairymen's policy has been to support those with some modifications. I think everybody agrees that there is not always, they are not the total answer, but that we have to continue to attempt to improve them and make the corrections that are needed through the normal hearing process.

Senator **Boschwitz**. You should be in politics, Mr. Lefebvre. [Laughter.]

Senator **Daschle**. Let me ask Mr. Barr a question pertaining to something Senator Boschwitz just asked. Could you describe briefly—you may have done it in your opening remarks, and I was not here—but the producer board for marketing purposes?

Mr. BARR. You mean the National Dairy Board?

Senator DASCHLE. That is the——

Mr. BARR. The one that is currently in existence?

Senator DASCHLE. The producer.

Mr. CAMERLO. Part of the CAP.

Mr. BARR. Oh, part of the CAP program?

Senator DASCHLE. That is right.

Mr. BARR. We believe that a producer board should be created to work with the Secretary of Agriculture in making decisions such as price support increases and so forth in order to give him the benefit of thinking of the producer sector. For example, in January of 1990 we felt very strongly that the market clearly indicated there was not a need for a price cut. As a matter of fact, we felt that market indications were just the opposite. The Congress did give the Secretary discretionary authority as part of the budget reconciliation act, but the price cut was made, and we felt that that cut was totally in the opposite direction of what was needed at that point in time. So we think that there are decisions made by the Department that an advisory committee of producers could be useful in working with the Secretary.

Senator BOSCHWITZ. I would say to the chairman that despite your best efforts they will not talk about increasing consumption even in response to leading questions.

Mr. PETERSON. I think we are.

Senator DASCHLE. Mr. Peterson.

Mr. PETERSON. We are. Well, I wish I could have said this when the Senator from Vermont was here. He may have been too modest to say, to make you aware that in the State of Vermont—and first let me say that I am a New Yorker, but I am well aware of what is going on—there is currently a producer effort going on to increase the amount of assessment on farmers for milk promotion. And admittedly maybe this a trial balloon, but I think they are out on the leading edge, and they may do something there. And we may be leading the way for what the rest of the country, and this may be one little thing that you have not heard about yet, Senator, and we are hoping that it kind of signifies that there is a grassroots effort out there to try to just what you are saying.

Senator BOSCHWITZ. I want to tell you I have told the chairman, the distinguished Senator from Vermont, that his folks are on the leading edge.

Mr. PETERSON. Well, I remind you I am from New York.

Senator DASCHLE. Mr. Lefebvre.

Mr. LEFEBVRE. I think the National Dairy Board also has ongoing research to develop new products, and we are just starting now to see those benefits coming about. So I think the industry is doing something to develop, to answer your question of developing new products to meet consumers 'demands. And I think that is the important thing is that we are developing research to determine what the consumer wants, and then to meet those product needs of the consumer.

Senator DASCHLE. Mr. Camerlo, did you have something else?

Mr. CAMERLO. Yes, Mr. Chairman, I want to thank Senator Boschwitz for helping us get in the $220 million we are going to be spending this year. I think maybe we could make available to the committee very shortly some of the exciting things that the National Dairy Board, United Dairy Industry Association, and the National Dairy Council are doing. I spent the last 2 days going through the future programs, Mr. Chairman and Senator Boschwitz. I am telling you they look good. I am excited about them. We have a new direction in nutrition education, new direction in nutrition research, new direction in product development. On the other side, private industry, I understand, has something like just under 2,000 new dairy products that went on grocery shelves in the last year. The future——

Senator BOSCHWITZ. Well, I would say to you that I have been down at UDI. I have been at DRINC. I have been at the various laboratories trying to push them and urge them and cajole them. I am aware that when some research was being done at Cornell about noncholesterol milk that they could not get any money from you guys. I am also aware that the 15 cents per hundredweight is chopped up rather fine so that it does not all go into promotion. But I respectfully say that that has to be part of the answer. More so, I do not take issue with everything that you say. Please do not misinterpret my viewpoint.

But my viewpoint is that there has to be a larger factor in this whole thing of promotion, and very honestly, not a promotion board of 36 farmers who you have to truck around the country, but some people who are really involved in selling. But, pardon me, Mr. Chairman, I have asked my questions of this panel.

Senator DASCHLE. You may want to clarify. You do not think 36 farmers can talk for farmers; is that what you are saying?

Senator BOSCHWITZ. I think that 36 farmers are—if I were to put together a promotion group for dairy or for any product, I am not sure it would be as large as 36, quite aside from the cost of moving them about, and I think I would get more, I would get people who are more oriented toward marketing than producing because those are the folks who understand how to sell the stuff.

Senator DASCHLE. All right. That will be the last word. Thank you, panel members. We appreciate your coming today, and thank you for all the insight and advice you have given us. Before we move on to the next panel, we also have some additional statements for the record including a statement from the Milk Producers Council, a statement from Mr. Fred Douma of the Milk Producers Council, and a statement by Mr. James W. Gruebele of the Dairyman's Cooperative Creamery Association. These will be included in the record.

[The prepared statements of Milk Producers Council, Mr. Douma and Mr. Gruebele follow:]

Milk Producers Council

13545 EUCLID AVENUE, ONTARIO, CALIFORNIA 91761 • (714) 628-6018

Positions for Dairy Title

1990 Farm Bill

1. Change to a total solids basis for determining CCC purchases by allocating the volume of a cwt. of milk that goes into butter and that which goes into NFM. Cheese milk equivalency to remain the same as current.

2. Change the trigger levels for support price adjustments to an increase below 2% and a reduction above 4% of commercial use.

3. Change the $.50 per hundred weight (cwt.) price adjustments to up to 5% of the then current support price but require at least a $.50 per cwt. reduction prior to the implementation of any supply control program.

4. Require implementation of a whole herd termination program when purchases are expected to exceed 7% of commercial use on a total solids basis.

5. Oppose any mandatory base, base excess or two-tiered price program.

6. Support the continuation of the Federal Order Program.

7. Support continuation of minimum dairy exports and require a meat purchase program if a supply control program is implemented.

March 7, 1990 Washington, D.C.

TESTIMONY OF FRED A. DOUMA ON BEHALF OF MILK PRODUCERS COUNCIL BEFORE THE UNITED STATES SENATE COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY

Mr. Chairman and members of the Committee, my name is Fred A. Douma. I thank you for taking the time to hold this hearing in order to discuss the dairy title of the 1990 Farm Bill. I am a dairyman operating in Southern California. This testimony is on behalf of myself and Milk Producers Council, a dairy producer trade association with membership primarily in Southern California. I am a member of and consultant to Milk Producers Council. We first commend you, and all the members of Congress for the job well done in developing the 1985 Farm Bill, especially for the dairy title that we are currently operating under. The dairy title that finally emerged out of the conference committee has worked to the benefit of dairy farmers, consumers and the federal budget process. It is the result of that particular legislation that has enabled the dairy producer to achieve a market-driven price for his commodity. The dairy industry presently is in better shape financially than any other year of the 80's. We can and do thank you, the members of Congress for that fact.

If the current legislation has been so successful, then why should we try to fix it? This question has been asked of me by many dairy farmers. The producers that I represent believe that, fundamentally, the current dairy title could be extended in the 1990 Farm Bill. However, looking forward, as we must do, fine tuning the current law would even better address the future of a more productive dairy industry of the 90's.

We support and recommend the following revisions to the 1985 dairy title for consideration by Congress when developing the 1990 Farm Bill. In making these recommendations, we have considered the specific recommendations of the National Commission on Dairy Policy (which we support in its entirety as a package) and the many industry discussions and debates that we have had up until this time. In order to achieve the highest consensus possible within the dairy industry, we have taken the following positions:

Our first recommendation would be to change the milk equivalency determinations of the CCC purchases from a fat basis to a total solids basis. This action would more accurately reflect the real market conditions of today and the future. Specifically, this change would recognize that butter utilizes only the cream portion of a hundred weight of milk and would allow the remaining skim portion to stand on its own when calculating CCC purchases.

For discussion purposes, we suggest that each pound of butter purchased by CCC represents 7.07 pounds of milk; each pound of cheese represents 9.88 pounds of milk; each pound of NFM represents 8.46 pounds of milk.

This allocation of milk equivalency determination would have increased the CCC milk equivalency purchases in fiscal 1987 from 5.4 billion pounds on a fat basis to 7.4 billion pounds on a total solids basis. For fiscal 1988, the change would have been from a 9.7 billion lbs. on a fat basis to an 8.4 billion lbs. total solids basis and, for fiscal 1989, from 9.2 billion lbs. fat basis to 3.5 billion lbs. total solids basis.

The trend of milk purchases on a total solids basis for these three periods more accurately reflects actual CCC net expenditures on dairy price supports. Their expenditures were approximately 1.24 billion dollars in fiscal 1987, 1.04 billion dollars in fiscal 1988, and 658 million dollars for fiscal 1989.

Table A	Fiscal year/billion lbs		
CCC Net Purchases milk equivalent:	1987	1988	1989
fat basis	5.4	9.7	9.2
total solids basis	7.4	8.4	3.5
CCC Net Expenditures on dairy price support	$1.24B.	$1.04B.	$658M.

Secondly, we recommend that the CCC purchase trigger levels for a support price change be amended from the current 2.5 and 5 billion lb. milk equivalency of purchases to percentages of commercial use. We recommend that a support price increase be mandated when projected CCC purchases are below 2% of projected commercial use and a decrease in the support price when purchases exceed 4% of commercial use. The December 1989 projected commercial use for 1990 is 139.5 billion lbs. 2% and 4% respectively are 2.79 billion and 5.58 billion.

This change would more accurately reflect an appropriate reserve supply of products under an ever-changing commercial demand for dairy products. A percentage volume would move with both increasing and decreasing commercial demand estimates.

Thirdly, we propose that the $.50 price support increases and decreases be amended to up to a 5% adjustment of the then current support price. This correction would maintain a fixed relationship of the price correction to the level of the support price.

Our fourth suggested amendment for fine tuning the 1985 Dairy Title is related to the currently existing secretarial option of implementing another milk diversion or dairy termination program.

We recommend that this discretionary authority be amended to mandatory implementation when projected CCC purchases on a total solids basis are expected to exceed 7% of commercial use. We know that it is at this point any consensus in the industry begins to break down. There is probably a consensus if the language were to state that a voluntary supply management program shall be implemented and leave the development of a program up to administrative decision through a hearing process at the time such a program is needed. However, to make our position very clear, we support another whole herd termination program as the most effective and most voluntary program that could possibly be implemented, should the need arise. We adamantly oppose the structural rigidity of implementing and establishing production bases through any federal program including an economically effective two tier pricing program. California producers have long recognized and demonstrated the need for constantly achieving the greatest efficiencies that economies of scale can provide for each production unit, limited only by financial and/or management abilities. The implementation of a national base program or an economically effective two tier price program will lock in the existing industry structure and by so doing reduce the ability of our industry to efficiently compete for its share of the U.S. consumer food dollar as well as potentially compete in the international market place.

Commenting on the highly publicized National Cattlemen's Association objections to another diversion or whole herd termination program, we contend the Cattlemen are not rationally considering the actual facts. If the dairy industry is in a position where a supply management program should be implemented because the technology of production outpaced the support price program, then a reduction in the production source, namely dairy cows, has to be accomplished. A structured removal of dairy cows through a whole herd termination program (greatly reduced in total number from the 1985 program) could be achieved or an unstructured, but the same total number of dairy cow reduction, will be achieved through the use of an economically effective two tier price program. The latter would result in a greater impact on slaughter cow prices than a structured approach. Given an experience with a two tier price program, I would predict that the next Farm Bill debate would hear the cattlemen say "No diversion, No whole herd termination, No two tier price program for dairy". We believe that we can learn from past mistakes and structure a whole herd buyout to cover most of the Cattlemen's objectives.

We oppose the use of any supply management program in lieu of a price support reduction. A price support reduction should be the first and foremost action taken to correct an overproduction problem. Only when a price support reduction alone cannot correct a potential problem should the standby authority for a voluntary supply management program be made available as an additional tool to be used to regain a supply/demand balance.

Moving on to the more general issues of discussion for the 1990 farm bill, we support the continuation of the federal milk order program. We have no specific position on the multi-base for determining Class 1 differentials discussion. However, we would warn the proponents of this idea that a large supply of milk in California is being produced under a totally different and lower base price than is the rest of the nation. This fact would be very disruptive in establishing appropriate location differentials in the western region of the nation.

We support the continuation of minimum dairy exports, including the use of a Dairy Export Enhancement Program (D.E.E.P.). We support the requirement of a red meat purchase program when a supply control program is implemented for dairy.

We have not heard much discussion in the industry on the timing of any support price reduction, but, for the record, we agree with the commission report that the annual support price adjustments should be made at the beginning of the market year, i.e. Oct. 1, of each year.

Thank you for giving me this opportunity to testify.

TESTIMONY
SENATE COMMITTEE ON AGRICULTURE
WASHINGTON, D.C.

James W. Gruebele, Ph.D.
Chief Executive Officer
Dairyman's Cooperative Creamery Association
Tulare, California

March 1990

The dairy situation has changed dramatically in the last couple of years. For the first time in more than ten years, except for the fat side, the dairy industry has achieved a market equilibrium. There are several reasons:

1. The 1985 Food Security Act included a voluntary Whole Herd Termination Program which required the slaughter or export of cows, calves and heifers. The program removed 12.2 billion pounds of milk.
2. The 1985 Act also provided for assessments to partially defray the cost of the program, and for 50-cent price adjustments depending upon the levels of government purchase.
3. Third, the 1988 drought resulted in increased feed costs and helped reduce total milk supplies in 1989.
4. The European Economic Community policy of tightened national bases resulted in an increase in the world price for nonfat dry milk powder. US firms were able to compete for powder sales in the international market in 1988 and 1989.

As a result of these conditions, government purchases of nonfat dry milk powder decreased from over 1 billion pounds in 1983 to 0 pounds in 1989; purchases of cheese dropped from 832 million pounds 983 to 36 million pounds in 1989; and, butter purchases dropped from 413 million pounds in 1983 to 357 million pounds in 1989. Uncommitted government inventories of nonfat dry milk powder and cheese are non-existent.

We support the Secretary of Agriculture's reduction in support prices effective January 1, 1990. The entire 50-cent price reduction was applied to butter and cheese. Such action was appropriate because of the relative supply and demand conditions for butter and powder.

Consumer preference continues to shift from higher fat to lower fat products. According to USDA statistics, total plain whole milk sales declined by 40 percent from 1970 to 1988. But, total sales of plain low fat milk increased by 267 percent over the same period. The fat cholesterol issue is affecting the US dairy industry. The reduction in the support price for butter is likely to result in increased consumption and also bring the US support price for butter closer to world market prices.

The 1990 Farm Bill

The 1985 Food Security Act helped achieve a balance in supply and demand for milk, particularly for cheese and powder.

We recommend the following:

1. Maintain a program where the price support is adjusted upward or downward depending upon the levels of government purchase.

2. Provide additional discretion to the Secretary of Agriculture in establishing a range of price adjustments rather than a single 50-cent adjustment as provided by the 1985 Act.
3. Measure government purchases on the basis of total solids equivalent rather than on a fat equivalent basis. This is for the purpose of reflecting government activity more accurately, not for price enhancement. An adjustment in the purchase level, i.e., 4 billion pounds rather than 5 billion pounds, may be necessary to maintain a balance in supply and demand.
4. Our cooperative association would support an assessment on all milk in the United States. A 5-billion pound purchase at a cost of $12.00 per hundredweight would amount to a $600 million expenditure. Any cost in excess of $600 million would be paid by all milk producers in the country. If the projected government purchases were to exceed $600 million, an assessment would be applied to milk producers to defray that excess cost. Assume the USDA anticipates a purchase cost of $700 million in 1991, and that milk volumes were anticipated at 1.45 billion cwt., then the assessment level would be established at about 6.9-cents per hundredweight. The government share of the expenditure would be $600 million and the dairymen's share would be $100 million.

It is important to note the assessment program must be used in conjunction with a program where the price support is adjusted upward or downward depending upon the level of government purchase.

If standby authority is required, our cooperative favors a voluntary supply management program as in heifer buyout, whole herd termination or a voluntary paid diversion program. We realize these programs only provide a temporary adjustment in milk supplies and the basic adjustment to supply and demand must be triggered by price adjustments. If solids-not-fat is in equilibrium, but there is a surplus on the fat side, the appropriate policy action would be to decrease the support price for butter.

We continue to be opposed to any mandatory supply management program like a two-tiered price, or a national base program for the following reasons:

1. Such programs impede sound business decisions, stifle growth, stifle new technology, increase the costs of producing milk, provide a major barrier to new entry and make the United States dairy industry less competitive on a worldwide basis.
2. Such programs would have a much greater negative impact on the beef industry than is the case with a voluntary program like the Whole Herd Termination Program. Under a mandatory supply management program, producers would cull the lowest producing cows; and, as a result, more cows would need to be slaughtered to achieve the same reduc-

tion in milk output as in the case of a Whole Herd Termination Program. Under a two-tiered program, the animals would be sent to slaughter immediately rather than over an 18-month period as in the Whole Herd Termination Program.

3. A mandatory program of supply management is totally ineffective when one component (fat) is in surplus and another component (solids-not-fat) is not in surplus. This kind of situation can only be solved through the price system. Price signals on a component basis cause producers to make genetic and feeding program adjustments to effect the relative production of skim and fat.

Conclusion

The 1985 Food Security Act was successful and we support a continuation of that program with minor adjustments. We believe a market oriented dairy price support program provides the most efficient approach to achieving and maintaining a balance in the supply and demand for the dairy industry. A price approach will continue to encourage regional shifts in production and dairymen are free to adopt new technology and to use price signals to make genetic and feeding program adjustment on a component basis.

The current proposal by National Milk Producers Federation would result in increased milk supplies because of the race for base, because of the increased support price and because the price support level could not be adjusted downward to reflect productivity gains from better management and new technology.

The National Milk Producers Federation Assessment Program would jeopardize our chances for participating in the export market because of the $10.60 per hundredweight minimum support price provision.

A mandatory supply management program like a two-tiered price or a national base program such as used in Canada would make the U.S. dairy industry less efficient and less competitive on a worldwide basis.

An extension of the provisions of the 1985 Food Security Act makes sense because it works. The price adjustment provisions were very successful in achieving a supply demand balance in the dairy industry. The good news is that the price adjustments helped to raise the commercial use of milk and dairy products.

Senator DASCHLE. The next panel will be a user panel. Mr. Linwood Tipton, president of the Milk Industry Foundation and the International Ice Cream Association; Mr. Floyd Gaibler, executive director of the American Butter Institute and the National Cheese Institute; Mr. Richard O'Connell, the president of the Chocolate Manufacturers Association; and Mr. Marc Goldman, the president of Farmland Dairies. Would those panel members come forward?

Gentlemen, we are pleased you are with us. Let us begin on my right with Mr. Tipton.

STATEMENT OF E. LINWOOD TIPTON, PRESIDENT, MILK INDUSTRY FOUNDATION AND THE INTERNATIONAL ICE CREAM ASSOCIATION, WASHINGTON, DC

INTRODUCTION

Mr. TIPTON. Thank you, Mr. Chairman. I appreciate the opportunity to be here, and we have filed a statement. I would like to take about 5 minutes to make some comments highlighting some of the elements that are in the statement and making some modifications to some of the things that were in the statement that we would like to discuss.

Senator DASCHLE. Let me remind everyone that their statements will be inserted in the record in full, and we do have a 5 minute time limitation, and we will take whatever excerpts you wish to provide us orally. With that, Mr. Tipton, let us begin with you.

Mr. TIPTON. Thank you.

PRICES

We have just experienced the highest prices and the largest raw milk price increases that we have ever incurred in the dairy industry during this past year. That was brought about largely because of some of the programs that were implemented as a part of dairy policy in the last several years, and primarily the drought and probably of equal importance were the exports of nonfat dry milk, which caused domestic prices of nonfat dry milk to reach in excess of $2.50 or about three times what the CCC purchase prices are.

ADJUSTMENTS WILL BE NEEDED

Even though we have had that kind of a situation, I do not think the committee should be misled or led to believe that the supply and demand of the dairy industry is going to be totally balanced in the future without some continuing adjustments.

MILK PRODUCTION AND TECHNOLOGICAL ADVANCEMENTS

We expect that milk production will continue to increase over the next several years at a rate slightly less than 2 percent, maybe in the 1.7 to 1.9 percent category. And that will be even though there will be some further price reductions. These increases in production, even though there might be some price reductions, will be the result of lower cost of production. That will come about as a result of increases in milk production per cow, and that would come about even without bST approval.

The technological advancements in breeding, feeding and so forth will increase milk production per cow and increase the efficiencies of production for some period of time. That will reduce costs and so price reductions will be commensurate with that reduction in cost. We would anticipate that consumption would increase at about that same rate, in fact, and the increases in consumption would be the result partially of the reduced prices because that would be a very substantial increase. That would mean per capita increases in consumption. The population of the country increases about 1 percent, and if we are talking about roughly 1.7 to 2 percent increase in consumption of product, that would be about a 1 percent increase in per capita consumption. And that is a pretty aggressive thing.

And I think the only way that could come about is with increased promotion that Senator Boschwitz had been talking about and with somewhat lower prices that will make dairy products good buys. It will make them good buys relative to other foods.

WE BELIEVE THAT WE NEED THREE MECHANISMS IN THE FARM BILL

We believe that we need three mechanisms in the farm bill, and they are pretty much the same mechanisms that have been there. We would support provisions for lowering the prices when and if surpluses develop. We would support provisions for adjusting the relative values of fat and nonfat solids when they become imbalanced, and we would support the provision for some discretionary authority for the Secretary to take additional actions if and when surpluses reach a very significant amount.

WHAT WE DO NOT NEED

We do not need in our opinion whole herd buyouts, diversion programs, two-tier pricing, quotas, base, or any of those types of devices that are basically designed to impose restrictions on the production and maintain prices higher than they would have otherwise been.

CHART

Mr. Chairman, at the end of our statement, there is a chart[12] that identifies some of the actions that have occurred and the resulting prices. And if you look at that chart at the end of the statement, it clearly identifies that every time there was a diversion program, every time there was a whole herd buyout, every time there was a special Government program designed to reduce production, the net effect was that it increased prices very, very substantially so you were trying to tell the dairy farmers in this country that they ought to be reducing production, and here is the method. We are going to buy out the herd or whatever the mechanism, and at the same time prices went up very substantially. We believe those kinds of interventions are not the proper way to run a dairy policy.

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[12] See p. 344 for the chart, "All Milk and Government Support Price."

MORE SPECIFICALLY OUR SUGGESTIONS WOULD BE THAT WE WOULD PROPOSE SOME ADJUSTMENT TO THE TARGETS THAT ARE CURRENTLY IN EXISTENCE

Mr. Chairman, more specifically our suggestions would be that we would propose some adjustment to the targets that are currently in existence. We would suggest that when both the milkfat and the nonfat solids, both the milkfat and the nonfat solids in production in the products that are bought by the CCC exceed 260 million pounds of milkfat or 600 million pounds of nonfat solids, and that is about the amount of components that would be in 7 billion pounds of milk, when both of those exceed that level, then there should be a price support reduction.

When one of them exceeds that level, but the other is below that level, meaning that there is an imbalance in the amount of fat or nonfat solids that is in surplus, then we believe there should be a provision that would provide for the Secretary to adjust the relative values of those two components. We would also suggest that when there is a increase, when CCC is acquiring more than the milkfat that would be in about 12 billion pounds of milk or more than the nonfat solids that would be in 12 billion pounds of milk, that the Secretary have discretionary authority to take some other measures.

WE BELIEVE THAT IT IS EXTREMELY IMPORTANT FOR THE DAIRY INDUSTRY TO MAINTAIN A POSITION OF BEING COMPETITIVE IN THE WORLD MARKET

We believe—one other comment, if I may—and I am sorry I have run out of time, but just a very brief one. We believe that it is extremely important for the dairy industry to maintain a position of being competitive in the world market. We believe world markets are going to open up. They are changing very rapidly. And there is a great opportunity. The dairy industry in the United States, without artificially propping up the price, can compete in that world market very effectively. A lot of our members are sending ice cream around the world. Somebody mentioned some product going to Japan. There are a number of people who are shipping ice cream to various countries around the world. We need to maintain a competitiveness in that world market. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Tipton. Mr. Gaibler.

[The prepared statement and chart of Mr. Tipton follow:]

STATEMENT
OF THE
MILK INDUSTRY FOUNDATION
AND
INTERNATIONAL ICE CREAM ASSOCIATION
PRESENTED TO
THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY
OF THE
UNITED STATES SENATE

MARCH 7, 1990

888 16th Street, NW
Washington, DC 20006
Telephone: (202) 296-4250

E. Linwood Tipton
President

My name is E. Linwood Tipton and I am President of the Milk Industry Foundation and the International Ice Cream Association on whose behalf I am appearing today.

The Milk Industry Foundation (MIF) is the national trade association for processors of fluid milk and milk products, which include beverage milks, yogurt, cottage cheese, sour cream, soft cheeses and dairy based dips. MIF's 220 member companies operate over 850 plants nationwide and process nearly 80 percent of the fluid milk and related products consumed in the United States. The total wholesale value of these products is in excess of $20 billion annually.

The International Ice Cream Association (IICA) is the trade association for manufacturers and distributors of ice cream and related frozen dessert products. Its 210 member companies operate about 750 manufacturing plants nationwide and process and distribute approximately 85 percent of the ice cream and related frozen desserts consumed in the United States. The value of these shipments is in excess of $4 billion annually.

Our member companies in the two Associations utilize about 55 percent of this country's total production of farm milk. We therefore have a vital stake in dairy policy and the 1990 Farm Bill.

Mr. Chairman and members of the Committee, I would like to make a few general observations about the current domestic economic situation and the role of U.S. Agriculture in the world economy. I'd also like to make some more specific comments about the lessons we have learned from our past actions in farm policy, particularly with respect to dairy policy. I will conclude by highlighting some of our recommendations that we feel will enable the dairy program and the dairy foods industry to remain a viable and an important part of the future of the American economy.

I believe it is extremely important that we view the 1990 Farm Bill in the proper context. While the dairy industry is obviously important to dairy farmers and to dairy foods processors, it is also an industry that plays an important and vital role in keeping the U.S. economy strong.

The agriculture and food industry in the United States today is the envy of the world. Our abundant supplies of food and efficient marketing and distribution systems contrast sharply with the reports of shortages and food lines we read about in the Soviet Union, Eastern Europe and many other places in the world. With the 1990 Farm Bill, we have an enormous opportunity to maintain the strength of American agriculture and to make it prosper. U.S. agriculture has gained this strength to a large extent through viable market oriented farm programs that send production signals through price rather than through government edict. This is in step with America's entrepreneurial spirit and should be maintained and encouraged by our farm policies. The 1985 Farm Bill started us in the right direction and we should continue policies that reduce government involvement in the marketplace and prepare this country for a greater role in the world economy.

As we begin a new decade, there are some valuable lessons to be learned from our policies of the past decade, particularly with regard to dairy policy. At the beginning of the 1980's the dairy price support level was higher than ever before, over $13.00 per hundredweight. This followed many years of automatic twice a year price increases resulting in dairy surpluses reaching a record 16 billion pounds in FY 1983 and a cost to the Treasury in excess of $2.5 billion. As a result, dairy policy enacted in 1981 specified some modest price support reductions but rather than reduce the price as much as was needed, established a milk diversion program, paying dairy farmers to reduce production. The 1985 Farm Bill again provided for a series of price support cuts if surpluses persisted, but once more the dairy industry was disrupted by the wholeherd buyout program and dairy farmers were sent conflicting signals.

The graph at the end of this statement depicts rather dramatically what happens to market prices for milk when government programs interfere with the market. In 1984, for instance, despite a reduction in the milk price support level, market prices increased dramatically as a result of supply distortions caused by the paid milk diversion program. This happened again in 1986 with the implementation of the whole herd buyout program when market prices increased by $.93 per hundredweight (cwt.) between March and November, which was then the largest seasonal price increase on record. The big run-up in milk prices in 1988 ($1.94 per cwt. between April and December) was largely due to the summer drought but was also due to the lingering effects of the herd buyout program and the supply distortions that program created.

These examples provide ample evidence that despite reductions in the government price support level, direct nonmarket intervention in the dairy program has kept farm milk prices higher and more volatile than they would have been without this intervention.

And in 1989, a unique set of conditions resulted in very tight supply conditions in much of the country, particularly during the latter part of the year. This resulted in a record increase in raw milk prices with the M-W price going from $10.98 per cwt. in March to $14.93 per cwt. by the end of the year.

Despite the tight supply conditions and record milk prices in 1989, we would caution to not overreact to what happened last year as we establish dairy policy for the next five years. 1989 was a very unusual year. Milk production was down following drought conditions the previous summer in many parts of the country, especially in the upper Midwest and Northeast. In addition, for the first time, world prices for nonfat dry milk rose above our domestic price, creating a market for this product outside of the U.S. Almost 400 million pounds of nonfat dry milk, close to 40 percent of the total U.S. supply, was sold to markets outside of the U.S. in 1989, leaving a very tight supply at home. During the fall and winter of 1989, domestic market prices for nonfat dry milk increased dramatically and by the end of the year were as high as $2.50 per pound...more than three times higher than both the U.S. support price of $.79 per pound and the prevailing world price of about $.84 per pound. In addition to record prices, there were occasions when processors were not able to obtain needed supplies of nonfat dry milk at any price.

But the tight market conditions in 1989 were an aberration and do not foretell short supplies of milk or dairy products in the future.

In fact, our projections show that even with 50 cent cuts in the price support level each year, milk production will continue to increase by almost 2 percent per year over the next five years resulting in the CCC purchasing the amount of milkfat contained in the 9-10 billion pounds of milk. The production increases will occur despite a decline in cow numbers (about -0.5% per year) as productivity per cow will likely increase by almost 2.5 percent on average per year. With commercial use expected to increase by about 1.8 percent per year, milk production will be adequate even with future reductions in the milk price support level.

In looking ahead, the U.S. dairy industry should be prepared for the opportunities to increase sales both here and abroad. The United States is widely recognized as one of the most efficent producers of milk in the world. According to a study soon to be published by USDA's Economic Research Service, of the major milk producing countries, only Australia, New Zealand and Ireland have lower costs of production than the United States. The United States can produce milk on average at about 50 percent lower than the principal milk producing countries in Europe and Canada.

As we enter the GATT talks, we should not be looking at programs to artificially curtail milk production in the United States. A study now underway at Texas A&M University indicates that cutting back production in the U.S. might very well increase costs to dairy farmers more than they stand to lose as a result of any possible price support cuts. We should be working towards eliminating unfair trade practices, subsidies and the trade distorting programs of other nations to allow our dairy industry to compete. We should not be talking about two-tier pricing, quotas or herd buyout programs that will reduce production efficiencies and our ability to compete in the U.S.

There are opportunities for trade if we're willing to work at it. The Government of Japan recently announced it will remove its import prohibition on ice cream later this year. We are excited by the prospect of being able to export ice cream to Japan for the first time. And we are hopeful that additional opportunities to export other high valued dairy products will evolve from the GATT trade talks. The producer funded National Dairy Research and Promotion Board is actively looking for opportunities to promote dairy exports and will soon be recommending that an Export Division be created within that organization. We commend this action and suggest that future dairy policy should encourage and not discourage commmercial export sales of dairy products.

RECOMMENDATIONS FOR NEW DAIRY POLICY

Dairy foods processors want and need an adequate supply of raw milk in order to operate. For this reason, we strongly support the continuation of the dairy price support program as a safety net for America's dairy farmers. We also support the continuation of the federal milk marketing order program which, despite some criticism, has promoted orderly marketing over the years. We believe strongly, however, that changes in the federal milk marketing orders should be made through the administrative process, not in legislation, and as such should not be part of the 1990 Farm Bill.

We believe the dairy price support program should be continued along the lines of the current dairy program, making price support adjustments based on the level of dairy product purchases by the government and using these price adjustments as the basic mechanism to send the appropriate milk production signal to dairy farmers.

Our specific recommendations address two much-debated elements: when price adjustments should be made; and how the "trigger level" should be calculated. We believe that the current dairy policy has worked pretty well, but know there are many who think the trigger level for price reductions should be at a higher level than the 5 billion pounds specified under current law.

In addition, there has been extensive discussion about counting all of the solids components in products purchased by the government, rather than just counting the milkfat component. We have addressed both of these issues in our recommendations.

Milk processors and ice cream manufacturers obviously need an adequate supply of raw milk to operate and manufacture the products they market. In recognition of the growth in commercial sales of dairy products over the past several years, our member companies suggested that we propose using a higher level of CCC purchases than in current law to trigger price support reductions. At the same time, our members insisted that whatever level is established that it be set forth in a straightforward manner with the method of calculation spelled out and clearly understood. We believe our proposal meets those objectives.

PROPOSED PRICE SUPPORT TRIGGER

We are recommending that when CCC purchases are estimated to exceed the amount of milkfat or the amount of nonfat solids contained in 7 billion pounds of raw milk, that the support price should be decreased by 50 cents. When purchases of both milkfat and nonfat solids fall below the level contained in 2.5 billion pounds of milk, the support price should be increased by 50 cents. And in the event that CCC purchases are estimated to exceed either the milkfat or nonfat solids contained in 10 billion pounds of milk, the Secretary of Agriculture would have the authority to implement a stand-by program to further reduce production, but that action would have to be accompanied by an additional reduction in the support price level. This latter point was adopted in the recommendation made by the National Committee on Dairy Policy in 1988.

Increasing the trigger level to 7 billion pounds from the current 5 billion pounds means that CCC product purchases could be 40 percent higher than under current law before a price support reduction would be triggered. In addition, our proposal takes into account both the milkfat and the nonfat solids contained in the products purchased by the CCC. Accounting for both of the solids components of milk - milkfat and nonfat solids - is much more straightforward and meaningful than aggregating CCC purchases as "total solids" as has been proposed by some.

Under our proposal the government could purchase the amount of milkfat or nonfat solids contained in 7 billion pounds of whole farm milk. Using the percentages of solids contained in whole milk -- approximately 3.67% milkfat solids and 8.53% nonfat solids -- CCC purchases totalling 257 million pounds of milkfat or approximately 600 million pounds of nonfat solids would be required to trigger a support price reduction. This would be the amount of milkfat or nonfat solids in 7 billion pounds of milk. In recent years, this would not have triggered price support reductions in 1988, 1989, or 1990 since the CCC was purchasing reduced levels of nonfat solids. USDA, however, would have been required to adjust the relative value of milkfat and nonfat solids in CCC dairy product purchases.

Under the current 5 billion pound trigger, this would mean the CCC could purchase 184 million pounds of milkfat or 427 million pounds of nonfat solids. If we were on a "total solids" basis, this would mean the CCC could purchase 611 million pounds "total solids" before a price support reduction would be required. To illustrate the problem that might occur using a "total solids" basis, assume that all of the 611 million pounds of "total solids" were in the form of milkfat. This quantity of milkfat would be the equivalent of purchasing 16.6 billion pounds of milk on the milkfat equivalent basis that is now used. In other words, the CCC would be required to purchase more than three times the amount of milkfat now purchased before triggering a reduction in the price support level. This is not the signal we want to send to dairy farmers. Returning to government purchases of this magnitude would have an enormous impact on the Federal Treasury and would threaten the long-term viability of the dairy price support program.

The level at which adjustments will be made and the method used should be clearly defined in the law. We think our proposal does this. We also feel strongly that USDA should retain the flexibility to allocate price adjustments to product purchase prices, realigning butter and powder prices as needed. This is the best way to respond to changing consumer demand for products.

Some have recommended that the price support level be tied to changes in market prices for milk. We think this is ill-advised and strongly oppose it. One proposal we have seen would increase the price support to $10.60 and require the support price to be increased if market prices increase, but would not permit the support price to fall below $10.60 if market prices fall. We have already indicated that CCC purchases of milkfat will be in the neighborhood of that contained in 9 billion pounds of milk at a support price of $10.10. Increasing the support price from that level and providing no opportunity for it to come down will only result in the CCC buying more product and increased costs to the

Treasury. Whatever mechanism is chosen should allow for adjustments both up and down in the price support level. This gives everyone participating in that market, buyers and sellers, economic opportunity.

We oppose any dairy program that would impose production quotas or bases. We also oppose what some have called a "two-tier" pricing system. Each of these are predicated on artificially restraining production and setting a higher price. They would impose inefficiencies and would drive milk prices to processors and to consumers higher than they would otherwise need to be.

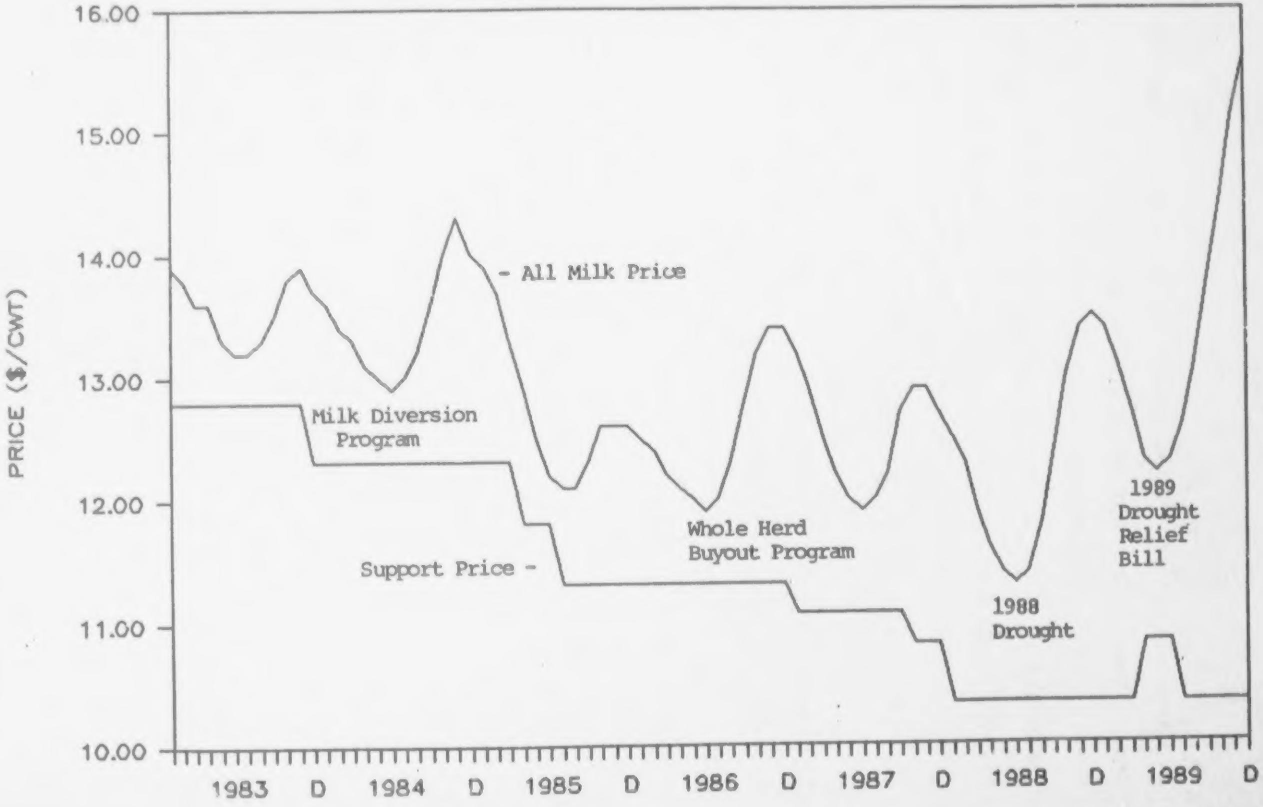
Any form of mandatory supply controls, whether in the form of quotas or two-tier pricing, would be a significant step backwards in moving our dairy industry ahead. Two-tier pricing for instance would be mimicking exactly what we are trying to convince the European Community to abolish in the GATT talks. If we are to be successful in the GATT and ultimately in world trade for dairy products we can not artificially prop up domestic price and dump our surplus on the world market.

We also believe that expanded export opportunities for U.S. dairy product sales and the situation that evolved in 1989 with nonfat dry milk will require a new look at U.S. import quotas. If we want more stable pricing and if we want the U.S. to compete globally then trade must be a two way street.

If exports rise to a level that leaves too little to meet domestic needs, then there must be an opportunity to import. It is clearly unfair to U.S. processors to cut off their supply or to drive their costs sky high as we expand to meet broader, world demands. New dairy policy must address instability in the domestic marketplace caused by new export markets and allow imports to come into the U.S. to rebalance our market.

In closing, I assure the Committee that the dairy foods processing industry is committed to a healthy dairy industry and will work with both the Congress and the Administration to formulate the best possible dairy policy for the future.

ALL MILK AND GOVERNMENT SUPPORT PRICE



MILK PRODUCTION COSTS, INDEX, US=100

United States	100
West Germany	192
France	174
Canada	140
Netherlands	101
Ireland	65
Australia*	50
New Zealand	42

* Estimated

Note: New Zealand and Ireland are pasture–based operations and do not rely on feed grains. In effect, they are constrained at current production levels.

Source: USDA, Economic Research Service, 1990. Study to be published this spring.

STATEMENT OF FLOYD D. GAIBLER, EXECUTIVE DIRECTOR, AMERICAN BUTTER INSTITUTE AND NATIONAL CHEESE INSTITUTE, WASHINGTON, DC

Mr. GAIBLER. Thank you, Mr. Chairman and members of the committee.

Senator BOSCHWITZ. Nice to see you here at the committee again.

Mr. GAIBLER. Thank you very much, Senator Boschwitz.

INTRODUCTION

My name is Floyd Gaibler. I am executive director of the American Butter Institute and National Cheese Institute. I appreciate the opportunity to participate in the hearing today and offer the views of our members concerning the dairy provisions of the 1990 farm bill legislation.

The butter and cheese industries play an integral role in the U.S. dairy industry, together utilizing more than 45 percent of the total U.S. milk supply. As large users of farm milk, the butter and cheese industries play an important role in the dairy industry. Therefore, we do have a vital stake in future dairy policy.

FUTURE DAIRY POLICY

We believe that future dairy policy can no longer be developed in a vacuum, ignoring the impacts of international markets, exchange rates and government policies of other countries. The U.S. dairy industry needs to be able to position itself to be a competitor in world markets as the opportunities arise.

In addition, major breakthroughs in technologies will continue to reduce the cost of producing milk. Future dairy policy will have to accommodate this changing atmosphere and be flexible enough to respond to fluctuating market conditions.

AS MANUFACTURERS AND PROCESSORS WE WILL ALSO HAVE TO CONTINUE TO BE INNOVATIVE AND COMPETITIVE

As manufacturers and processors we will also have to continue to be innovative and competitive. We must continue to exploit opportunities to develop new products to meet changing consumer demands. Increasingly, the public awareness of health related issues will have an impact on the dairy industry.

In the case of butter, these perceptions have begun to translate into changes in consumption patterns. As a result, the American Butter Institute and the butter industry has attempted to respond to that change by endorsing a light butter with a one-third reduction in fat, cholesterol and calories. We believe that this product will provide a clear dairy alternative between butter and nondairy alternatives.

NEW PROCESSING AND MARKETING EFFORTS ARE CHANGING THE CHEESE INDUSTRY FROM A COMMODITY MARKET TO A LINE OF MORE SPECIALIZED TYPE PRODUCTS

Likewise, new processing and marketing efforts are changing the cheese industry from a commodity market to a line of more specialized type products. Thus, future dairy policy must also be flexible and responsive if we are to take advantages of these various opportunities and challenges.

DAIRY POLICY RECOMMENDATIONS

Concerning specific dairy policy recommendations, manufacturers and processors of butter and cheese have historically been supportive of the price support program and continue to do so. We do believe that the program should be market oriented and at the same time continue to act as a safety net to protect farmers and keep dairy products competitive. Furthermore, the program should be structured to provide some form of predictability, flexibility, and durability over the long-term.

DAIRY PRICE SUPPORT PROGRAM

The 1985 farm bill, we believe, provided a step in the right direction by allowing the support price to be adjusted to reflect market clearing levels. At the same time, the safety net function for farmers has been preserved. But it is also important to note that the dairy provisions were not without their flaws. The mandated increases in Class I differentials and the whole herd buyout program have received mixed reviews on their effectiveness and impacts. They have had the effect of sending conflicting signals to producers, encouraging milk production in certain areas, at the same time, participation was high in the buyout program. This was clearly at odds with the intent of the dairy provisions of lower government costs and dairy surpluses.

THE ISSUE OF PRICE SUPPORT ADJUSTMENTS

Concerning the issue of price support adjustments, it is our recommendation that the existing mechanism utilizing annual price support adjustments based on certain specified levels of CCC purchases of dairy products be continued in new dairy legislation.

Obviously, there has been much discussion on what should constitute the appropriate levels to trigger price support adjustments. There has also been intense debate on how the CCC purchases should be measured. Concerning the former, we believe an argument can be made that the appropriate triggers should remain as they are. However, the ultimate test in determining what level of Government purchases is necessary to ensure an adequate supply of milk and keep supply and demand in reasonable balance without incurring excessive Government outlays.

The issue of how CCC purchases are measured is another matter. That concern is obviously being driven by the surplus of milkfat.

We support the view that, where possible, both milkfat and nonfat solids should be taken into account with respect to measurement of CCC purchases of dairy products.

However, finally it is important to remember that when the surplus of milkfat and nonfat solids are in a relative balance, there are no acute problems in calculating the milk equivalents of CCC purchases. Flexibility to allocate price support adjustments to reflect those market signals, and thus, product price relationships between butter and nonfat dry milk must be retained to ensure CCC purchases provide a true picture of the supply/demand situation for milk and milk products.

[The prepared statement of Mr. Gaibler follows:]

STATEMENT
OF THE
AMERICAN BUTTER INSTITUTE
AND
NATIONAL CHEESE INSTITUTE
PRESENTED TO
THE
COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY
OF THE
UNITED STATES SENATE

MARCH 7, 1990

888 Sixteenth Street, N.W.
Washington, D.C. 20006
Telephone: (202) 659-1454

Floyd D. Gaibler
Executive Director

Mr. Chairman, my name is Floyd Gaibler. I am Executive Director of the American Butter Institute and the National Cheese Institute. I appreciate the opportunity to participate in the hearing today and offer the views of our members concerning the dairy provisions of the 1990 Farm Bill Legislation.

Founded in 1908, the American Butter Institute (ABI) is one of the oldest dairy trade associations. Its members include companies that are manufacturers, processors and distributors of butter and butter products. The vast majority of the U.S. butter is manufactured and processed by ABI members.

The National Cheese Institute (NCI) was organized in 1927. Likewise, its members include companies that are manufacturers, processors and distributors of all types of cheese and cheese products. NCI member companies manufacture and process the vast majority of U.S. natural and process cheese and cheese products.

The butter and cheese industries play an integral role in the U.S. dairy industry. In 1989 the total value of product shipments of butter was $1.5 billion. Total butter production in 1989 was 1.2 billion pounds and utilized approximately 16 percent of the total U.S. milk supply. The cheese industry employs 35,000 people. The total value of product shipments of cheese exceeded $12.6 billion in 1989. Total cheese production in 1989 was 5.6 billion pounds and utilized approximately 30 percent of the total U.S. milk supply, second only to fluid beverage milk usage.

As large users of farm milk, the butter and cheese industries play an important role in the dairy industry. In particular, cheese prices are a key indicator of changing market values for the entire industry. Cheese prices have a strong influence on manufacturing grade farm milk prices in Minnesota and Wisconsin. Those prices become part of the Minnesota-Wisconsin price series, which, in turn, influence the price of all other dairy products. The butter and cheese industries, therefore, have a vital stake in future dairy policy.

Future dairy policy can no longer be developed in a vacuum, ignoring the impacts of international markets, exchange rates and government policies of other countries. Clearly, the outcome of the GATT negotiations in 1990 could also have a significant impact on the dairy industry as well as the whole agricultural sector. The U.S. dairy industry needs to be able to position itself to be a competitor in world markets as the opportunities arise.

Major breakthroughs in technology will continue to reduce the cost of producing milk. Areas such as animal nutrition, reproduction, disease control and improved management practices will result in continued increased efficiencies. Future dairy policy will have to accommodate this changing atmosphere and be flexible enough to respond to fluctuating market conditions.

As manufacturers and processors, we will have to also continue to be innovative and competitive. We must continue to exploit opportunities to develop new products to meet changing consumer demands. Increasingly, the public awareness on health-related issues will have an impact on the dairy industry. Indeed, public perceptions are beginning to be formed on the need for reduction of dietary intake of fat and cholesterol.

In the case of butter, these perceptions have begun to translate into changes in consumption patterns. The butter industry has attempted to respond to that change by endorsing a 'Light' butter with a one-third reduction in fat, cholesterol and calories. We believe that this product will provide a clear dairy alternative between butter and non-dairy alternatives -- margarine, blends and diet spreads. It would represent a similar strategy used in other dairy products (milk, cheese, ice cream) and other food categories. Overall, the experience has been that product segmentation in these categories has, at a minimum, stabilized and, in some cases, increased volume of overall sales.

Likewise, new processing and marketing efforts are changing the cheese industry from a commodity market to a line of more specialized type products. In addition to being a primary consumer food, cheese has also been used in a wide application as a value-added ingredient for snacks, pizza, and microwavable entries. In 1989, some 350 new products were introduced that either utilized cheese as an ingredient or offered low fat, low sodium nutritional cheeses.

In summary, the dairy industry must continue to respond with changes in genetics, processing, product formulation and marketing to meet this shift in demand. However, future dairy policy must also be flexible and responsive if we are to take advantage of these opportunities and challenges.

Dairy Policy Recommendations

The Legislative/Regulatory Policy Committees of both ABI and NCI developed recommended objectives for dairy provisions in the 1990 Farm Bill which were endorsed by each respective Board of Directors.

In considering the objectives, the Committees reviewed the report and recommendations of the National Commission on Dairy Policy. In addition, the Committees reviewed the existing provisions of the 1985 Farm Bill and other proposals that have been considered from time to time.

Dairy Price Support Program

Manufacturers and processors of butter and cheese products have been historically supportive of the dairy price support program and continue to do so. The primary objective of the support program -- assuring an adequate supply of milk -- is of paramount importance to our members.

The price support program should continue to be market-oriented and, through the purchase of dairy products, provide a stabilizing function to achieve a relative balance in supply and demand. At the same time, the program should continue to act as a safety net to protect farmers and keep dairy products as competitive as possible with other foods both in the U.S. and in international markets.

The price support program should be structured to provide predictability, flexibility and durability over the long term. The short-term solutions of the early 1980's were disruptive and failed to adequately address the large dairy surpluses and attendant government costs.

The 1985 Farm Bill provided a step in the right direction by allowing the support price to be adjusted to reflect market-clearing levels. At the same time, the safety net function for farmers has been preserved.

CCC purchases of dairy products have declined from 12.3 billion pounds in FY 1986 to a projected 7.8 billion pounds this fiscal year. Government expenditures for the price support program have declined from $2.4 billion to a projected $500 million for the same period. While the reduction in outlays reflects lower purchases at lower support prices, much of the difference is the result of the effects of the 1988 drought on milk production and the fact that world prices for nonfat dry milk exceeded the U.S. purchase price providing an outlet for powder. Most estimates are for continued increased production efficiencies and increased milk production. This is the context in which the dairy provisions should be viewed in the new multi-year Farm Bill.

It is also important to note that the dairy provisions were not without their flaws. The mandated increases in Class I differentials and the whole herd buyout program have received mixed reviews on their effectiveness and impacts. They had the effect of sending conflicting signals to producers, encouraging milk production in certain areas at the same time participation was high in the buyout program. This was clearly at odds with the intent of the dairy provisions to lower government costs and dairy surpluses.

Price Support Adjustments

It is our recommendation that the existing mechanisms utilizing annual price support adjustments based on certain specified levels of CCC purchases of dairy products be continued in new dairy legislation. The adjustments should provide for flexibility to respond to changing market conditions. Specifically, if annual CCC purchases are projected to exceed 5.0 billion pounds on a milk equivalent basis, the price support should be reduced. Conversely, when CCC purchases are projected to fall below 2.5 billion pounds, the price support should be increased. Price support adjustments should be limited to ± 5 percent. If CCC purchases were projected to fall between 2.5 and 5.0 billion pounds, no change would be made in the support price.

There has been much discussion on what should constitute the appropriate levels to trigger price support adjustments. There has also been an intense debate on how the CCC purchases should be calculated, particularly the use of a "total solids" basis. Concerning the former, an argument can be made that the five billion pound trigger now represents a smaller percentage of total production and consumption each year. For example, some have suggested that triggers should be based on percentages of total commercial use. However, in considering appropriate triggers, the test should be what level of government purchases is necessary to insure an adequate supply of milk and keep supply and demand in reasonable balance without incurring excessive government outlays.

The issue of how CCC purchases are measured is another matter. This concern is obviously being driven by the current surplus of milkfat. For many years, both milkfat and solids were in surplus. However, during the past year, CCC purchases have been almost exclusively butter. Several factors played a role in that situation. First, a marketing quota system instituted by the European Economic Community contributed to a worldwide shortage of nonfat solids and created an international market for domestically produced nonfat milk. The strong NDM market gave butter-NDM plants a competitive edge over cheese plants and competition drove up farm milk prices.

On April 1, 1989, the CCC purchase price for NDM was increased and on July 1, 1989, the butter price was decreased to put more equity in the competition of milk for manufacture and to reduce CCC purchases of butter. Finally, higher retail prices and alterations in consumption patterns toward products lower in milkfat slowed the increase in commercial use, resulting in larger CCC purchases.

Congress recognized the need for further realignment of product purchase prices by mandating that the purchase price for butter be not more that $1.10 per pound under the Omnibus Budget Reconciliation Act of 1989.

We support the view that, where possible, both milkfat and nonfat solids should be taken into account with respect to measurement of CCC purchases of dairy products. However, there was strong concern that the method used to measure CCC purchases not result in the possibility of substantial increased purchases without requiring some adjustment in the price support level. Nor should the method be used as a price enhancement tool.

Finally, it is important to remember that when the surplus of milkfat and nonfat solids are in relative balance, there are no acute problems in calculating the milk equivalents of CCC purchases. Flexibility to allocate price adjustments to reflect market signals and, thus, product price relationships between butter and nonfat dry milk must be retained to insure CCC purchases provide a true picture of the supply/demand situation for milk and milk products.

Supply Management

Our members have voiced strong concerns about basing the price support program on supply management including the use of quotas, production bases, or a two-tier price program. A two-tiered pricing program would likely call for a reduction in output. This impedes efficiencies through underutilization of production facilities and the deterrence of the adoption of new technology. As a result, production costs would increase. In addition, if producers must reduce production, they most likely will cull cows. Without any effective controls on timing of slaughter, cattle prices will likely be adversely affected. Regional shifts in milk production would be restricted. Ultimately, milk prices would rise and consumers would be paying more for milk and milk products.

Market oriented dairy provisions are needed to permit the adoption of technology and insure that the U.S. can be and will be competitive not only in the domestic market but eventually in international markets. Over the long run, U.S. producers are in a position to participate in the world market for dairy products.

Nonetheless, there was a concern raised that if price support adjustments alone were not totally effective in reducing surpluses in the short run, consideration should be given that the Secretary of Agriculture would have the authority, but not be required, to implement a temporary whole herd buyout program. This would be an option of last resort. We are cognizant of the fact that the buyout program is not popular with the cattlemen or with some in the dairy industry. However, given some experience with the earlier program, we feel that it perhaps would be the least disruptive type of supply management program available if administered properly. It is voluntary and is more effective in that is allows very little slippage.

The original buyout program was a compromise solution that had to be enacted in a very short time to deal with an immediate surplus situation. Sufficient safeguards must be put in place to insure that no region of the country be faced with a supply disruption that will adversely affect either milk or meat prices. The original program affected both. It increased milk prices because of its price distorting effects and decreased meat prices. This must be avoided if any future whole herd buyout is utilized.

Interference of Food Assistance Programs

In the recent past, the cheese industry raised concerns to Congress with regard to the Temporary Emergency Food Assistance Program (TEFAP). At its peak, TEFAP distributed over 80 million pounds of commodities per month, over 40 percent of which was cheese. The large donations resulted in displacement of commercial sales of cheese. This was confirmed in a 1987 Report to Congress -- Effects of the Temporary Emergency Food Assistance Program on Displacement. USDA estimated that 35 pounds of commercial cheese sales were displaced for every 100 pounds of TEFAP cheese donations. It also confirmed that the displacement also resulted in increased CCC purchases of bulk cheese.

The recent effects of TEFAP have been mitigated as surplus levels of cheese acquired by CCC decline to low levels. It would seem prudent that any effective long-term policy for food assistance should not be reliant on the assumption that sufficient supplies will be available from commodity surpluses. Nonetheless, there is a concern that TEFAP, or some other food distribution program, will be used to mandate purchases of cheese or other dairy commodities under the price support program.

Clearly, there is no opposition to providing food assistance to the truly needy. However, food assistance programs should be designed to reach various groups directly and not interfere with commercial markets or distort the dairy price support program.

Regionalism

We are quite concerned about any form of regional application of the dairy price support program. Milk flows freely across political and state boundaries. Moreover, there is much variability of dairy operations within regions let alone among regions. Any federal dairy policy must assure that supplies of fluid milk are available from all regions of the country in order to assure an adequate supply.

Federal Milk Marketing Orders

Like the dairy price support program, we support the continuation of the Federal Marketing Order Program. However, there have been concerns raised about the effectiveness of certain aspects of the order program, such as the Minnesota-Wisconsin price series, grade and distance differentials, and other marketing order provisions. In addition, there have been concerns raised over the need for significant improvements in the administration of the order system.

The experience of mandating various increases in Class I differentials as part of the dairy title of the 1985 Farm Bill has resulted in a divergence of opinions as to whether it resulted in a better alignment of prices and, thus, allocation among markets.

In our view, it is more prudent to address such complex economic issues in the existing hearing process administered by the Agricultural Marketing Service. Rather than mandate changes in order provisions legislatively, the U.S. Department of Agriculture should use the administrative hearing process. We would urge that the Secretary of Agriculture initiate a series of administrative hearings and conduct a comprehensive review of the major issues of concern to the dairy industry. Finally, adequate funding, if necessary, should be made available to the Department to insure that issues can be resolved on a timely basis through the hearing process.

Mr. Chairman, we look forward to working with you and members of the Committee in developing effective, long term policy for the dairy industry.

Senator DASCHLE [presiding]. Thank you, Mr. Gaibler. Mr. O'Connell.

STATEMENT OF RICHARD T. O'CONNELL, PRESIDENT, CHOCOLATE MANUFACTURERS ASSOCIATION OF THE U.S.A., AND NATIONAL CONFECTIONERS ASSOCIATION OF THE U.S., McLEAN, VA

Mr. O'CONNELL. Thank you, Mr. Chairman, members of the committee.

INTRODUCTION

I am Richard T. O'Connell, president of the Chocolate Manufacturers Association of the U.S.A. (CMA). CMA represents 12 of the 15 manufacturers of chocolate and cocoa products in the United States.

The chocolate industry uses well over 4 billion pounds of milk annually, principally in the manufacture of milk chocolate. Milk chocolate constitutes about 90 percent of total chocolate confectionery sales. The amount of milk in a chocolate bar ranges from 12 to 20 percent, depending on the formulation.

MARKET-ORIENTED DAIRY POLICY SHOULD BE CONTINUED

When the U.S. Congress embarked on a new dairy policy course for the dairy industry in the early 1980's, cutting free of a support price linked to parity and instead basing it on a level of CCC purchases, a substantially more market-oriented policy was initiated. With some modification, the same policy has been followed ever since the 1981 act. Although it has taken time to bring supply back in line with demand, this policy has worked extremely well, and I want you to know that is the first time we have ever used that sentence on a dairy price support testimony. Removals by CCC have been cut in half while budget costs have been trimmed by three-quarters from the highs of 1983. Per capita utilization of dairy products rose after several years of gradual decline. And, within the past year prices received by farmers have begun to break free of the support level, indicating that the market is at least approaching a state of equilibrium.

We support the continuation of this policy, because of past performance and also in view of the economic and policy environment that lies ahead.

It is apparent that there will continue to be a tendency to produce more milk than the market will absorb at prevailing prices. Thus, there will be a continuing need for the level of price supports to be adjusted in response to changes in the relationship between supply and demand.

Another advantage of current policy is its adaptability to changing circumstances. To the extent markets tighten and CCC removals fall below prescribed levels, support prices will initially be frozen and then, if removals fall far enough, support prices will be raised.

We support the administration's proposal to modify the current price support formula to grant the Secretary slightly greater discretion in setting support prices based on projected market conditions. This formula would use price support adjustments to maintain surpluses between 2.5 and 5 billion pounds.

Another reason for sticking with our current approach to dairy policy relates to consistency with other policies. Continuation of a price adjusted dairy policy is consistent with the direction that is most likely for the major field crops, including feed grains.

Despite the success of current policy and widespread producer support for its continuation, a number of alternatives are likely to be proposed. One of these alternatives deserves special mention. This proposal would abandon the use of a price adjustment mechanism by raising the support price, setting a floor under the support price at this new higher level, and imposing a production quota scheme whenever Commodity Credit Corporation purchases exceed the prescribed level.

This proposal is a poor idea for several reasons:

First, it would reverse the decline in program cost. In comparison with a continuation of current policy, we estimate that Federal budget cost would approximately double under this proposal.

Second, the higher milk prices that would result would discourage utilization, possibly reversing the recent gains achieved in per capita consumption levels.

Third, higher product prices would also effectively eliminate the United States from competition in commercial export markets, and incidentally, in 1988, our exports of chocolate products, largely milk chocolate, exceeded imports of finished chocolate for the first time in history. And these are markets the United States has just begun to penetrate.

Fourth, by penalizing production, excess of a farm's historical base, growth and adjustment in the industry would be discouraged. Farmers would be discouraged from adopting new management practices and new technology, thereby slowing the trend toward a more efficient industry.

Five, finally, implementation of a quota program would be both costly and cumbersome to administer, requiring continual monitoring of each farm's production.

For all these reasons, we believe a quota approach to controlling supply should be avoided. It is in the best interest of the entire dairy industry, producers and consumers alike, for primary reliance in the balancing of supply and demand to be left where it is now, on the use of effective price adjustment mechanisms. Thank you.

[The prepared statement of Mr. O'Connell follows:]

Committee on Agriculture

U.S. Senate

322 Russell Senate Office Building
Washington, D.C.

Statement for March 7 Hearing on U.S. Dairy Policy

Richard T. O'Connell, President
Chocolate Manufacturers Association of the U.S.A.
and
National Confectioners Association of the U.S.
7900 Westpark Drive, Suite A-320
McLean, Virginia 22102
703-790-5011/5750

Mr. Chairman, Members of the Committee, I am Richard T. O'Connell, President of the Chocolate Manufacturers Association of the U.S.A. (CMA). CMA represents 12 of the 15 manufacturers of chocolate and cocoa products in the U.S. These products include baking chocolate, chocolate confections, chocolate syrups and cocoa for drinking purposes, and chocolate-flavored milk. Our members also manufacture chocolate and cocoa ingredients used in ice cream, bakery goods, cereals, biscuit and cracker products.

The chocolate industry uses well over 4 billion pounds of milk annually, principally in the manufacture of milk chocolate. Milk chocolate constitutes about 90 percent of total chocolate confectionery sales. The amount of milk in a chocolate bar ranges from 12-20% depending on the formulation.

Market-Oriented Dairy Policy Should be Continued

Confronted with large and rapidly growing dairy surpluses in 1981, the U.S. embarked on a new policy course for its dairy industry. By cutting free of a support price linked to parity and instead basing it on the level of CCC purchases, a substantially more market-oriented policy was initiated. With some modification, the same policy has been followed ever since. Though it has taken time to bring supply back in-line with demand, given the enormous excess capacity that had developed by the early 1980s, this policy has worked extremely well. Removals by CCC have been cut in half while budget costs have been trimmed by three-quarters from the highs of 1983. Per capita utilization of dairy products rose after several years of gradual decline. With the help of policy changes in the European Community; the U.S. became a commercial exporter of nonfat dry milk for the first time in many years.[1] And, within the past year prices received by farmers have begun to break free of the support level, indicating that the market is at last approaching a state of equilibrium.

We support the continuation of this policy, because of past performance and also in view of the economic and policy environment that lies ahead. There are several dimensions of this environment that are especially important.

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[1] Because there are quotas on imports, these export sales caused shortages and major price upheavals in the milk market after the sale. We suggest that in the future, whenever domestic market prices exceed the government sell-back price, the CCC should increase the amount of imports allowed into the U.S.

First, it is apparent that there will continue to be a tendency to produce more milk than the market will absorb at prevailing prices. This will be interrupted from time-to-time by temporary shortages, such as occurred late last year. But the long-term trend continues to be one of over-supply. This is for several reasons. Productivity as measured by milk production per cow continues to rise, increasing at an average annual rate of 2.4 percent since 1965. In fact, since 1984 the rate of growth in productivity has accelerated. Should bST be approved and adopted on a significant scale, there would be a further acceleration in productivity. Assuming a continuation of existing feed grain policies, feed prices will continue to be favorable, giving further impetus to production. In addition, the continuing shift of milk production away from less productive regions (e.g. the Corn Belt) and toward more productive regions (e.g. the Pacific) will have a similar effect. Thus, there will be a continuing need for the level of price supports to be adjusted in response to changes in the relationship between supply and demand.

Another advantage of current policy is its adaptability to changing circumstances. To the extent markets tighten and CCC removals fall below prescribed levels, support prices will initially be frozen and then, if removals fall far enough, support prices will be raised. As noted above, the market for milk appears to be approaching equilibrium. As a result, the steady reduction in support prices that we have witnessed over the past 6 or 7 years is likely to slow, if not reverse. Such symmetry and flexibility is important.

Budget costs and a continuing need to bring the Federal deficit under control should continue to be a major objective of all national policies, including dairy policy. The current approach to setting the dairy price support incorporates an important safeguard to escalating budget costs.

We support the Administration's proposal to modify the current price support formula to grant the Secretary slightly greater discretion in setting support prices based on projected market conditions. This formula would use price support adjustments to maintain surpluses between 2.5 and 5 billion pounds.

Another advantage of continuing to adjust supply and demand through the pricing system is that it avoids actions that are disruptive to other markets, including markets for other agricultural commodities. The principal alternative to adjustment through price is supply control. Two major supply control programs have been applied to the dairy industry in the last 5 years -- the Milk Diversion Program in 1984-85 and the Dairy Termination Program in 1986-87. In both cases, the effect of the program on milk supplies was temporary. Though the Dairy Termination Program was somewhat more effective in curbing supplies, it had the added drawback of depressing cattle prices, which, in turn, led to the Government purchase of beef. A mandatory supply control program, such as the program adopted by the European Community for its dairy sector, would be even more disruptive of efficient resource allocation.

The continued use of a price adjustment mechanism in setting the price support for milk is also important for its effect on demand. As noted above, the per capita consumption of dairy products rose in the latter half of the 1980s for the first time in many years. Analysis by USDA indicates that this was due in significant measure to the declining relative prices of dairy products. Likewise, due to a combination of falling U.S. prices and rising world prices, the U.S. became competitive temporarily in the world commercial market for nonfat dry milk. There will be continuing opportunities for the dairy industry to further expand its markets, if it continues to focus on price competitiveness.

A final reason for sticking with our current approach to dairy policy relates to consistency with other policies. By continuing to adhere to a market-oriented dairy policy, we will signal to other participants in the GATT negotiations that we are serious in our pursuit of trade liberalization and are committed to becoming a more competitive force in world markets. Similarily, continuation of a price adjusted dairy policy is consistant with the direction that is most likely for the major field crops, including feed grains.

Thus, on the basis both of past performance and expected future requirements, we make the case for the continued pursuit of a dairy policy that relies primarily, if not exclusively, on the use of price adjustments to equilibrate supply and demand.

Despite the success of current policy and widespread producer support for its continuation, a number of alternatives are likely to be proposed. One of these alternatives deserves special mention. This proposal would abandon use of a price adjustment mechanism by raising the support price, setting a floor under the support price at this new higher level, and imposing a production quota scheme whenever Commodity Credit Corporation purchases exceed a prescribed level.

This proposal is a poor idea for several reasons.

0 It would reverse the decline in program cost. In comparison with a continuation of current policy, we estimate that Federal budget cost would approximately double under this proposal.

0 The higher milk prices that would result would discourage utilization, possibly reversing the recent gains achieved in per capita consumption levels.

0 Higher product prices would also effectively eliminate the U.S. from competition in commercial export markets -- markets that the U.S. has just begun to penetrate.

0 In raising prices and holding them at an artificially high level while at the same time imposing an assessment on production in excess of quota, the proposal would give producers contradictory signals. Since the proposed assessment is relatively small, however, increased production and increased CCC purchases are likely to result.

0 By penalizing production excess of a farm's historical base, growth and adjustment in the industry would be discouraged. Farmers would be discouraged from adopting new management practices and new technology, thereby slowing the trend toward a more efficient industry.

0 Finally, implementation of a quota program would be both costly and cumbersome to administer, requiring continual monitoring of each farm's production.

For all these reasons, we believe a quota approach to controlling supply should be avoided. It is in the best interest of the entire dairy industry, producers and consumers alike, for primary reliance in the balancing of supply and demand to be left where it is now, on the use of an effective price adjustment mechanism.

Senator **Kerrey** [presiding]. Thank you, Mr. O'Connell. Mr. Goldman.

STATEMENT OF MARC GOLDMAN, PRESIDENT, FARMLAND DAIRIES, INC., WALLINGTON, NJ

Mr. **Goldman**. Thank you.

INTRODUCTION

Good morning, Mr. Chairman, and thank you for the opportunity to testify before this panel today.

When America's decisionmakers discuss the dairy policy sections of the farm bill, we focus on how we can keep a tight rein on the market.

The lingo we hear when we discuss the all-American dairy industry sounds suspiciously like the dictates of a 5-year plan designed by a Moscow apparatchik, in a dusty office thousands of miles from the fields it affects. All of these policies, though created with good intent, ignore the essential problem of the dairy industry.

DAIRY CAN BECOME A STRONG INDUSTRY AGAIN WITHOUT DEPENDING ON GOVERNMENT HANDOUTS BY SIMPLE MARKET ECONOMICS

Dairy can become a strong industry again without depending on Government handouts by simple market economics. The product with the highest return to the farmer is Class I, or fluid milk. Since farmers are paid a price which is a blend of higher value of fluid milk and the lower priced milk used for manufactured products, a higher utilization of Class I brings the farmer a higher price. But for a generation now, we have witnessed milk losing its place as the beverage choice of Americans.

This has resulted in dairy's growing reliance on manufactured products using Class II milk and slowly eliminating the need for local dairy farms and processors. These manufactured products have a far longer shelf life than fluid milk, and can originate and be processed almost anywhere.

AT RISK FROM FOREIGN COMPETITION

Another troubling outgrowth on this manufactured product dependence is that dairy is now just another American industry at risk from foreign competition. The results of the GATT talks may render any dairy policy formulated by Congress to the dead letter office if we witness boatloads of European Cheddar and Australian-made American cheese arriving at our ports.

This dramatic downturn in milk's market status has come while Federal and industry policies have focused almost exclusively on trying to examine and regulate the output of the cow's udder while ignoring the input of the consumer's mouth. The graph behind me illustrates this problem.

THE INCREASE IN SOFT DRINK CONSUMPTION

The increase in soft drink consumption—that you can see on this graph [13]—has been caused by sophisticated mass marketing. An estimated $1 billion is spent on the combined marketing efforts for the likes of Coke, Pepsi, Seven-Up, and their carbonated cousins. Bill Cosby, Michael J. Fox, Magic Johnson, and Whitney Houston are some of the foot soldiers in the beverage wars. Largely through the medium of television they have convinced the American consciousness that a can of pop is a necessity right now. When a product's market share has peaked, new products have appeared that have left us wondering how we could have lived all these years without them. First Coke, then Tab, then Diet Coke, then Cherry Coke, then Coke Classic, then Diet Cherry Coke, then Caffeine-free Diet Coke; the list goes on and on. Today New York Times, Coke II is next.

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[13] See p. 372 for the graph, "Per Capita Consumption of Beverages 1965–1988."

Even as I speak, soft drink manufacturers are aggressively attacking the breakfast market, the one meal where milk has maintained market share. As unappealing as it sounds, "Start your day with a Coke" is now a way of life for a growing number of Americans.

If trends continue, the demand for milk as a beverage will continue to fall, leaving a crippled dairy industry, dependent upon Federal support for survival. The greater centralization of farms and processors will leave fluid milk an expensive specialty item. We must react to these foreboding trends.

THE WAY TO REACT

I believe that the way to react is to use precisely the tools used by the rest of the beverage industry to gain their marketplace advantage: well-conceived, liberally placed promotional advertising for fluid milk coupled with a greater product variety.

We are being outgunned by a 12 to 1 ratio on spending in the marketing war for the hearts and minds of the consumer. The current system just is not providing us enough firepower.

The dairy industry needs a jolt. One that will lay the foundation for a healthy market for a long time to come. In the face of the mammoth Federal deficit, that jolt should come at no cost to the taxpayer.

PROPOSAL

I propose that Congress, through the Department of Agriculture, mandate a processor promotion fund for fluid milk. This would allow the dairy industry using the product that gives the farmer the best return to compete on a more even playing field with our beverage competitors. It is critically important to the future of America's dairy farmers for Class I consumption to rise; Class II milk cannot provide an adequate income for most of them to survive.

Under this proposal, 35 cents per hundredweight of milk would be added to the price and paid by processors. This money would be used to finance a substantial generic marketing effort that would finally be a real attempt to attack the demand side of the equation—instead of continuing the failed supply side solutions of the past.

The resulting fund would provide approximately $500 million annually to improve milk's image and compete more aggressively.

Milk can and should be positioned as a more fashionable product "of choice" to the consumer.

This program should be run by a processor board. Processors are in the best proximity to the marketplace to make the judgments about consumer behavior.

In setting up this fund, I would also propose that the farmer pay a nickel per hundredweight of milk that would be used exclusively for new fluid milk product research and development. This would lessen the burden to the farmer who currently shoulders the entire 15 cents per hundredweight levy now used for advertising. A dime per hundredweight in savings would be welcome news to farmers in the face of predictions of rapidly falling prices.

The over $70 million annual research budget from the farmers would bring about a needed product line expansion. This will allow fluid milk to better compete for the shelf space of the 21st century marketplace.

Skeptics about market expandability need only look toward soda, juice, or even bottled waters to see that a dramatic increase in sales can result when the market is properly addressed.

VARIETY OF BENEFITS AND BENEFICIARIES OF AN EXPANDED FLUID MILK MARKET

I would like to outline the variety of benefits and beneficiaries of an expanded fluid milk market.

Local farmers and processors, who have suffered the adverse effects of milk's downward consumption slide, would be strengthened. Fluid milk is the only dairy product that requires local supply and processing. If we raise the consumption levels of Class I milk, we can keep these locals in business. The blend price paid to farmers would increase and we would immunize the industry from the threat of manufactured milk products from abroad. Strong local farms will bolster the attendant rural infrastructure. A healthier American public is yet another beneficiary. Getting children to drink more milk cannot help but result in stronger bodies and better students.

Finally, and of critical importance to the Congress, is that an expanded fluid milk product would allow the Federal Government to slowly remove itself from the business of surplus purchase without drastic changes in prices or harm to the farmer. The trends toward increased farm productivity raises a specter of an even more burdensome surplus program down the road. Many view an end to Federal surplus purchases as a deficit fighting necessity. We should wean the industry off surplus purchases simply by increasing demand.

The strong fluid milk market resulting from a change in focus from decreasing supply to increasing demand will allow the American dairy industry to face the future with a firm market foundation, free of the surplus purchase narcotic and with strong growth potential. If we do not address the fall in demand for this important commodity, we will continue to idly witness the slow death of our dairy industry. Thank you.

[The prepared statement and attachments of Mr. Goldman follow:]

TESTIMONY BY

MARC GOLDMAN
PRESIDENT
FARMLAND DAIRIES
WALLINGTON, NEW JERSEY

BEFORE THE
COMMITTEE ON
AGRICULTURE, NUTRITION AND FORESTRY
UNITED STATES SENATE

MARCH 7, 1990

WASHINGTON, DC

Good morning, Mr. Chairman and thank you for the opportunity to testify before this panel today.

We need only turn on tonight's news broadcast to witness sweeping changes in the world. Throughout the Eastern Bloc, nations are, one by one, rejecting the constraints of a controlled economy. Such an economy brings only high prices and low supply. Yet when America's decision makers discuss the dairy policy sections of the Farm Bill before us today, we focus on how we can keep a tight rein on the market.

The lingo we hear when we discuss the All-American dairy industry sounds suspiciously like the dictates of a Five Year Plan designed by a Moscow apparachik, in a dusty office thousands of miles from the fields it affects. All of these policies, though created with good intent, ignore the essential problem of the dairy industry.

Dairy can become a strong industry again without depending on government handouts by simple market economics. The product with the highest return to the farmer is Class I or fluid milk. Since farmers are paid a price which is a blend of higher value fluid milk and the lower priced milk used for manufactured products, a higher utilization of Class I brings the farmer a higher price. But for a generation now, we have witnessed milk losing its place as the beverage choice of Americans.

The graph attached will illustrate this trend. Just twenty five years ago, the average American consumer was drinking twenty four gallons of milk yearly; fully one third more milk than soft drinks. In the ensuing years, while milk consumption has decreased twenty percent, soft drink consumption has skyrocketed by almost three hundred percent.

Has the average American's metabolism changed? Has our climate become so arid as to make people thirstier? Obviously not. It's been the marketing efforts of soft drink manufacturers who have made it important, in fact, downright trendy to drink soda.

The decline of milk in its share of the beverage market has had stultifying implications on each segment of the dairy industry. A smaller percentage in the use of Class I milk has lowered the blend price paid to farmers. The drastic decline in the number of dairy farms must, in part, be blamed on this lower price.

Dairy's growing reliance on manufactured products using Class II milk is slowly eliminating the need for local dairy farms and processors. These manufactured products have a far longer shelf life than fluid milk and can originate and be processed almost anywhere.

Another troubling outgrowth on this manufactured product dependence is that dairy is now just another American industry at risk from foreign competition. The results of the GATT talks may render any dairy policy formulated by Congress to the dead letter office if we witness boatloads of European cheddar and Australian-made American Cheese arriving at our ports.

This dramatic downturn in milk's market status has come while Federal and industry policies have focused exclusively on trying to examine and regulate the output of the cows udder while ignoring the input of the consumer's mouth.

The increase in soft drink consumption has been caused by sophisticated mass marketing. An estimated one billion dollars is spent on the combined marketing efforts for the likes of Coke, Pepsi, Seven-Up and their carbonated cousins. Bill Cosby, Michael J. Fox, Magic Johnson and Whitney Houston are the foot soldiers in the beverage wars. Largely through the medium of television, they have convinced the American consciousness that a can of pop is a necessity right now. When a product's market share has peaked, new products have appeared that have left us wondering how we could have lived all these years without them. First Coke, then Tab, then Diet Coke, then Cherry Coke, then Coke Classic, then diet Cherry Coke, then Caffeine-free Diet Coke ... the list goes on and on.

Even as I speak, soft drink manufacturers are aggressively attacking the breakfast market, the one meal where milk has maintained market share. As unappealing as it sounds, "Start your day with a Coke" is now a way of life for a growing number of Americans.

By creating positive images for soft drinks with the younger consumer, the soda industry has started a trend that will affect the generation now growing up. The resulting effects on our children's health and educational prospects are not, I think, what any of us would view as beneficial.

If trends continue, the demand for milk as a beverage will continue to fall, leaving a crippled dairy industry, dependent upon Federal support for survival. Greater centralization of farms and processors will leave fluid milk an expensive specialty item. We must react to these foreboding trends.

I believe that the way to react is to use precisely the tools used by the rest of the beverage industry to gain their marketplace advantage: well conceived, liberally placed promotional advertising for milk coupled with a greater product variety.

Modest efforts have already shown slight improvements in the image of milk as a beverage consumers want ... and need. However, these efforts have paled in comparison to the blockbuster budgets for soda.

We are being outgunned by a twelve to one ratio on spending in the marketing war for the hearts and minds of the consumer. The current system just isn't providing us enough firepower.

The dairy industry needs a jolt. One that will lay the foundation for a healthy market for a long time to come. In the face of the mammoth Federal deficit, that jolt should come at no cost to the taxpayer.

I propose that Congress, through the Department of Agriculture, mandate a Processor Promotion Fund for fluid milk. This would allow the dairy industry, using the product that gives the farmer the best return, to compete on a more even playing field with beverage competitors. It is critically important to the future of America's dairy farmers for Class I consumption to rise; Class II milk cannot provide an adequate income for most of them to survive.

Under my proposal, a charge of thirty five cents per hundred weight of milk would be paid by processors. This fee would be used to finance a substantial generic marketing effort that would finally be a real attempt to attack the demand side of the equation -- instead of continuing the failed supply side solutions of the past.

The resulting fund would provide approximately five hundred million dollars annually to improve milk's image and compete more aggressively. Better positioning and a greater variety of fluid milk-based products are needed. Milk needs broader based, more sophisticated advertising than has been done thus far. Milk can and should be positioned as a more fashionable product "of choice" to the consumer.

This Processor Promotion Fund should be funded and controlled by a processor board. Processors are in better proximity to the marketplace to make judgments about consumer behavior than the farmer. They are in the best position to direct these efforts.

In setting up this fund, I would also propose that the farmer pay a nickel per hundred weight of milk that would be used exclusively for new fluid milk product research and development. This would lessen the burden to the farmer who currently shoulders the entire fifteen cents per hundred weight levy now used for advertising. A dime per hundred weight in savings would be welcome news to farmers in the face of predictions of rapidly falling prices.

The over seventy million dollar annual result from the farmers would bring about a needed product line expansion. Economics 101 taught us that one of the best ways to increase demand was to develop product variety. More products developed with an eye towards consumer's needs will allow fluid milk to better compete for the shelf space of the Twenty First Century marketplace; meeting consumer demands head-on.

Skeptics about market expandability need only look toward soda, juice or even bottled waters to see that a dramatic increase in sales can result when the market is properly addressed. Other segments of the beverage industry have done this successfully. Up until now, dairy has come up short.

Let me outline the variety of benefits and beneficiaries of an expanded fluid milk market.

Local farmers and processors, who have suffered the adverse effects of milk's downward consumption slide, would be strengthened. In point of fact, it is precisely because fluid milk is the only dairy product that requires local supply and processing that we need to face this challenge. If we raise the consumption level of Class I milk, we can keep these locals in operation, the blend price paid to farmers would increase, immunizing the industry from the threat from manufactured milk products from abroad. Strong local farms will bolster the attendant rural infrastructure.

We have witnessed a wide fluctuation in prices in recent years, much of it due to oversupply at the farm level. This is not good for either farmer or consumer. With new technologies and more efficient farm production on the horizon, it is critical that the market economy be allowed to stabilize price. This can be done without tinkering with the supply side of the equation. Increased demand will bring about price stability.

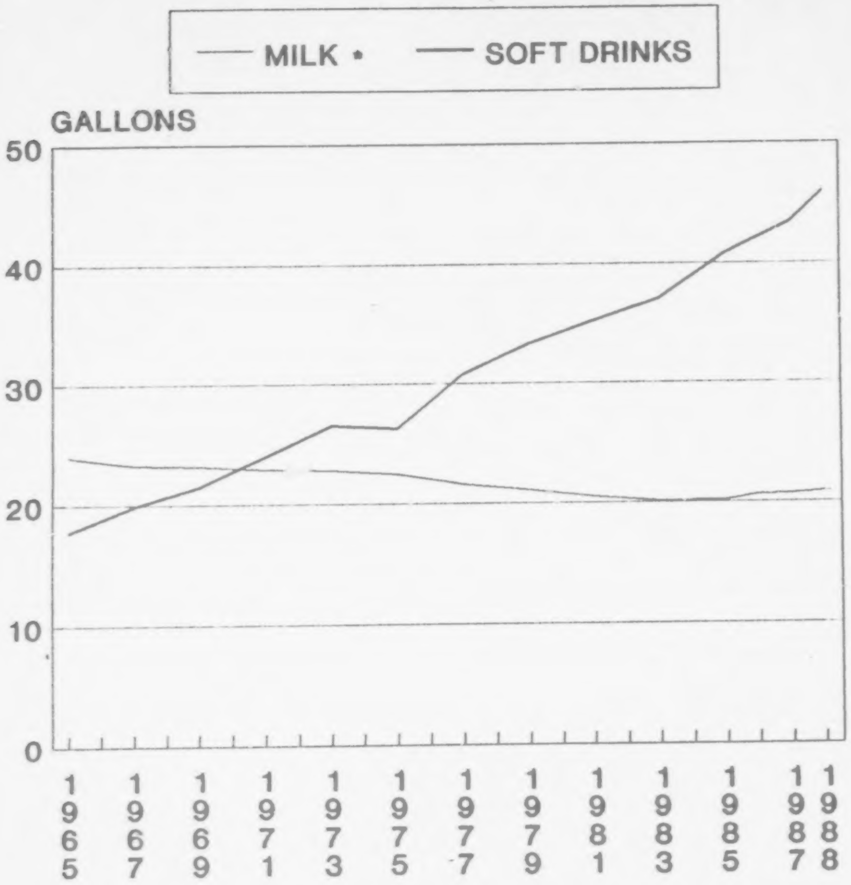
Drinking more of "Nature's Most Perfect Food" and less of sugar and chemical-laden fizz water will produce a healthier American public. Getting children to drink more milk cannot help but result in stronger bodies and better students.

Finally, and of critical importance to the Congress, is that an expanded fluid milk market would allow the Federal government to slowly remove itself from the business of surplus purchase without drastic changes in prices or harm to the farmer. The trends toward increased farm and processor efficiency raise a specter of an even more burdensome surplus program down the road. Many view an end to Federal surplus purchases as a deficit-fighting necessity. We should wean the industry off surplus purchases simply by increasing demand.

The play of free market forces, such as those being clamored for in the newly free world, will allow for the growth market of this regulated dairy commodity. Research and development efforts will brighten the future prospects of an industry which, from today's view, look bleak.

The strong fluid milk market resulting from a change in focus from supply to demand will allow the American dairy industry to face the future with a firm market foundation, free of the surplus purchase narcotic, and with strong growth potential. If we do not address the fall in demand for this important commodity, we will continue to idly witness the slow death of our dairy industry.

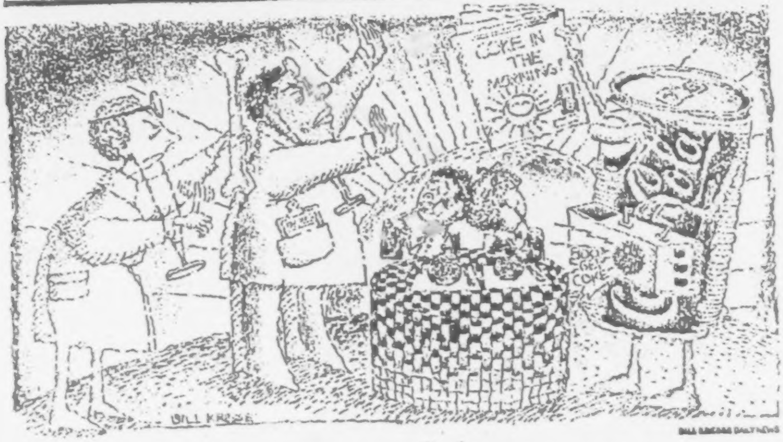
PER CAPITA CONSUMPTION OF BEVERAGES
1965 - 1988



* Estimated consumption as a beverage.
Excludes use in cooking,
in cereal, etc.

Sunday Daily News, May 15, 1988

FEELING GOOD



BILL KRESSE DAILY NEWS

Here Comes a Coke in the Morning

Stop it / Beat the feelin', nutritionists warn parents

By PEGGY MANN

TANISHA PHILLIPS, age 9, shoved her glass of milk away. "Milk is for babies!" she informed her mother. She got up from the breakfast table, took a bottle of Coca-Cola from the fridge and poured herself a glass.

"Coke for breakfast?" Mrs. Phillips said in faint dismay.

"Sure," Tanisha told her mother. "It's cool!" And she broke into a song:

"I want a Coke in the Morning/Can't Stop it, can't stop it/Can't beat the feelin'/I want a Coke in the morning."

> *There is a commercial war brewing for control of our fluid intake.*

Tanisha lives in the South Bronx. But her cousin visiting from Virginia had taught her the new jingle now playing during morning "drive time" in areas of Virginia, Kentucky, Florida, Oklahoma, Louisiana and Georgia. There are also Coke in the Morning print ads, billboards, and banners in fast-food restaurants and convenience stores. There is even a new hotline, 800-GET COKE.

Coke began experimenting with the concept three years ago. When total morning sales rose 3%, the campaign gathered momentum, and other cola manufacturers are taking note. Pepsi has just started a Pepsi in the Morning campaign in Chattanooga, Tenn.

"There is a commercial war brewing for control of our fluid intake," said Dr. Robert L. Dupont, internationally known public health expert. "The big winners are soft drinks. We are drinking 45% more soft drinks than in 1974. A person consumes a fairly constant amount of fluid each day. If, for example, a child downs a tall, cold glass of Coke or Pepsi for breakfast, he or she is not very likely to have 'space' for a tall cold glass of milk."

Nutritionists and bone and osteoporosis specialists are horrified at the new advertising thrust. The concern is that many American youngsters are already living on a diet that is too high in fat, sugar and processed foods, from chips to donuts, to Big Macs to candy bars. And they say the new drive is discouraging milk drinking at the formative age when an adequate calcium intake is an important factor in preventing osteoporosis later in life in both men and women.

'COCA-COLA IS NOTHING but sugar and additives," said Marion Nestle, director for nutrition policy, Office of Disease Prevention and Health Promotion, part of the Department of Health and Human Services. "It adds nothing to the diet other than calories—empty calories with no nutritional value whatever."

Another factor impacting on the general calcium consumption of girls is the diet craze, now reaching down to grade-school levels. Dieting usually means diet soda instead of milk; cutting out cheese and ice cream. And their calcium intake takes a nose dive—during the very years when it would be increasing. The U.S. Department of Agriculture's Recommended Daily Allowance for milk for growing children is three glasses per day, or three equal servings of skim milk, low fat milk, unsweetened yogurt or cheese.

Though the fact is usually not recognized by children—and apparently by most parents—adults start losing more bone than we make at about age 35. If you don't have a healthy "calcium bone balance" built up by this time, you are at risk of developing porous or brittle bones.

Ninety-nine per cent of all calcium intake goes to bones and teeth. But the remaining 1% is essential for every cell in the body to function. And if there is not enough calcium in the "bone balance" then the person is at risk of fractures and osteoporosis in later life—and at increased risk of fractures early in life.

A new and ongoing study of children 2 to 12 by pediatrician Gary Chan of the University of Utah Medical Center in Salt Lake City, shows that children who have fractures habitually consumed less calcium than matched controls who did not have fractures.

"We recommend that children who suffer an accidental fracture be counseled about the vital importance of adequate calcium in their daily diet," said Chan.

Although the official cola-for-breakfast advertising thrust has not yet hit New York City, youngsters such as Tommy Greene and Annie Fenton, 10th-grade students at a mid-Manhattan private school, are old hands already at starting the day with soda, and maybe with a slice of toast or donut in hand.

"I don't drink milk at all now," said Tommy. "I used to like it, but I stopped four or five years ago."

EVEN WHEN DELICIOUS nutritious breakfasts are offered children at many public schools in the city, either free or at reduced rates, the majority of youngsters do not take advantage of them. However, a new study of low-income elementary school children showed that those who took part in a school breakfast program had improved academic performance and reduced tardiness, compared to students who did not have the school breakfast.

> *Colas add nothing to the diet other than empty calories. They have no nutritional value.*

Although federal law forbids the selling of "competitive foods" during mealtime or in the cafeteria, some youngsters bring their own can of soda and a packet of junk food—for breakfast and/or lunch.

"Girls especially do this," said one cafeteria employe in a mid-Manhattan public high school. "They carry it in their bookbag. Then they sit down at the cafeteria table with their friends, and what can we do? Soda and junk food are not illegal."

(Peggy Mann writes regularly on health issues.)

INSIGHT

Let's give new product development a booster shot

With keen interest, I read Marc Goldman's recent views in this column ("Insight," November 1989) on the plan for a Processor Promotion Fund for fluid milk. The plan calls for a processor assessment of 35 cents per hundredweight of milk, providing approximately $500 million annually to bring advertising and promotion of milk more into line with expenditures for soft drinks. I strongly support this plan, especially because it could also lead to a reallocation of the current 15 cents per hundredweight farmer check-off and increase funding for new product R&D.

Market-driven effort needed

Increased funding for R&D ($75 million proposed by Goldman) could go a long way toward expanding and improving return on investment (ROI) of farmer-supported new product R&D efforts. In the face o increasing consumer concerns about fat and cholesterol, the need for new products has become urgent.

How can increased funding be used in conjunction with existing programs for new product R&D? Let's first review the status of current programs.

Although it's hard to measure the return on investment (ROI) for farmer funds from different sources, about 90 percent has gone to basic and applied university research projects. Universities do an excellent job of providing basic research, education and training, and development of some prototype products and processes. However, university programs alone cannot deliver sufficient new products in both the shorter and longer term to ensure a favorable ROI on dairy farmers' investment. Clearly, a more market-driven effort is required to expand opportunities for taking new products to the consumer.

Nevertheless, the current 15 cents check-off program for dairy promotion has met many of the expectations of dairy farmers. Generic advertising and promotion has currently been a factor in minimizing the per-capita loss in milk consumption to soft drinks and other beverages. Concurrent with expanded promotion and advertising, farmer supported nutrition and product research has also been increasing.

Since 1985, the National Dairy Board has expended about $3.4 million per year for product research. To bolster product research, it has supported the creation of six Dairy Foods Research Centers at universities across the country, which receive matching funds from the Board, regional dairy promotion groups and processors. The Dairy Board has allocated $2.7 million per year for five years to fund these centers. Additionally, it is providing almost $1 million annually for 70 projects at various institutions, as part of its ongoing competitive research program. Total funds committed specifically to product research from all sources sharing in the 15 cents check-off (NDPRB, UDIA, DRINC, WMMB, states/regionals and others) were estimated at $9 million for 1988. Of that amount, roughly $8 million was allocated to basic and applied research at universities, while about $1 million was specifically directed to new product development.

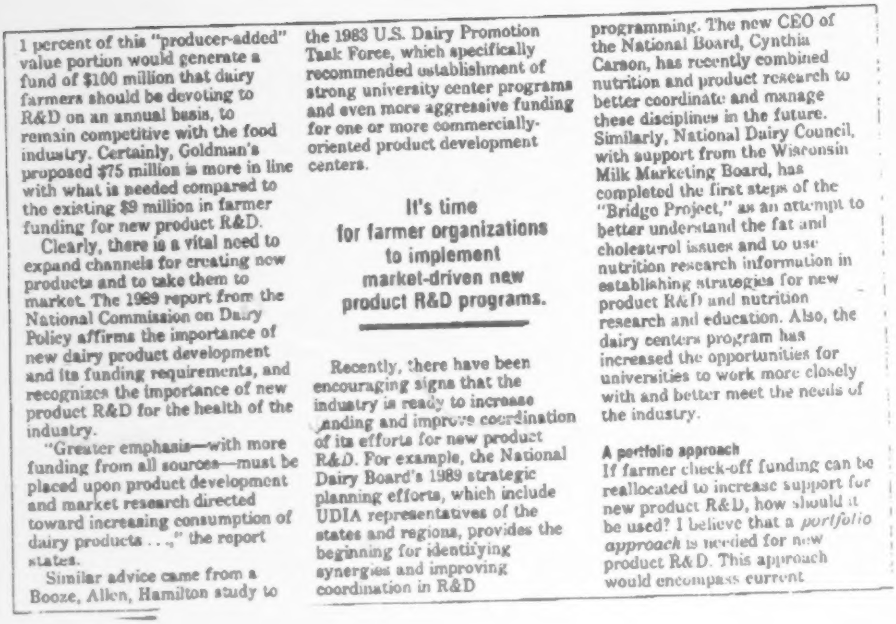
Increased funding for R&D could go a long way toward expanding and improving return on investment of farmer-supported new product R&D efforts.

Alan R. Huggins, Ph.D., is president of Huggins International, an industry consulting firm specializing in commercialization of new food products. Dr. Huggins has been involved in strategic planning for the dairy industry and has served on advisory committees at university dairy centers.

Refocus R&D expenditures

Impressive as these expenditures may seem, they are but a fraction of what is needed when compared with R&D expenditures by other segments of the food industry. Food companies typically invest an average of about 1.8 percent in R&D, with a range of 0.5 to 3.5 percent. These companies rely upon new products for 20 to 30 percent of annual sales growth. How do farmer-supported R&D efforts compare?

Recent USDA estimates indicate dairy producer sales at $37 billion with 27 percent of that, or $10 billion, considered as "producer-added" value (that portion for which farmers may be held accountable). A conservative



1 percent of this "producer-added" value portion would generate a fund of $100 million that dairy farmers should be devoting to R&D on an annual basis, to remain competitive with the food industry. Certainly, Goldman's proposed $75 million is more in line with what is needed compared to the existing $9 million in farmer funding for new product R&D.

Clearly, there is a vital need to expand channels for creating new products and to take them to market. The 1989 report from the National Commission on Dairy Policy affirms the importance of new dairy product development and its funding requirements, and recognizes the importance of new product R&D for the health of the industry.

"Greater emphasis—with more funding from all sources—must be placed upon product development and market research directed toward increasing consumption of dairy products . . .," the report states.

Similar advice came from a Booze, Allen, Hamilton study to the 1983 U.S. Dairy Promotion Task Force, which specifically recommended establishment of strong university center programs and even more aggressive funding for one or more commercially-oriented product development centers.

It's time for farmer organizations to implement market-driven new product R&D programs.

Recently, there have been encouraging signs that the industry is ready to increase funding and improve coordination of its efforts for new product R&D. For example, the National Dairy Board's 1989 strategic planning efforts, which include UDIA representatives of the states and regions, provides the beginning for identifying synergies and improving coordination in R&D programming. The new CEO of the National Board, Cynthia Carson, has recently combined nutrition and product research to better coordinate and manage these disciplines in the future. Similarly, National Dairy Council, with support from the Wisconsin Milk Marketing Board, has completed the first steps of the "Bridge Project," as an attempt to better understand the fat and cholesterol issues and to use nutrition research information in establishing strategies for new product R&D and nutrition research and education. Also, the dairy centers program has increased the opportunities for universities to work more closely with and better meet the needs of the industry.

A portfolio approach

If farmer check-off funding can be reallocated to increase support for new product R&D, how should it be used? I believe that a *portfolio approach* is needed for new product R&D. This approach would encompass current programs, as well as new and more focused programs for product development. This "R&D portfolio" would include:

- **Accelerating the development of new milk beverages** (flavored, carbonated, "juiced" acidophilus-cultured, and the like), because this category has the greatest potential for expanding milk consumption.

- **Adopting an "opportunity analysis" approach** for other new products that would integrate marketing research support into all stages of the R&D process, assess status and potential for products in each dairy product category and identify the best mix of R&D investments for new products.

- **Supporting technology improvements** that will facilitate the development of cholesterol- and fat-reduced products of the highest quality and taste.

- **Supporting the funding of cooperative efforts** with outside entrepreneurial companies that are developing technologies that would benefit the industry.

- **Establishing commercially-orient product development centers** with organizations like Dairy Research Inc.

- **Continuing to expand the use of milk components** (lactose, protein, fat, whey, etc.) as new food ingredients.

- **Expanding the pool for innovative basic research** through continuing support at current levels for basic and applied research at university dairy centers, while increasing funding for more targeted competitive research programs at both dairy and non-dairy center universities and other institutions.

- **Establishing a product development advisory committee** composed of technical and business/marketing experts from all segments of the dairy industry including producers, processors and universities. Effective use of the advisory committee is essential to the entire portfolio. Experienced staff should be given considerable flexibility and authority to carry out the committee's recommendations in coordination with the management of the involved producer and processor groups. This committee could be divided into expert subcommittees based on dairy product categories. The committee could also serve in development of strategies, review of proposals and establishment of tactical approaches for commercialization of new products and technologies.

Overall, these expanded R&D efforts will foster more effective cooperative partnerships with industry to provide finished new products to the consumer. Clearly, new products are the future of the dairy industry and it's time for farmer organizations to implement market-driven new product R&D programs that will ensure the success of the dairy foods industry in the 1990s and beyond. ■

DAIRY FOODS FEBRUARY 1990
DAIRY

Senator KERREY. Thank you, Mr. Goldman.

Senator Boschwitz has to leave. He asked me if he could ask a few questions first, and that is fine. I yield to Senator Boschwitz.

Senator BOSCHWITZ. I thank the chairman. Should the advertising, Mr. Goldman, be limited to generic advertising or should this 35 cents, some go to Borden, some go to this guy, and so forth?

Mr. GOLDMAN. I think it is important that it be limited to generic. That does not preclude anyone privately who wants to do their own brand advertising. But the branded advertising would take share of one brand from another. This would be intended to increase the market for the entire fluid milk line. And the second problem, I think, with allocating it on a branded basis is that the very large processors would get their proportionate share which would give them even further marketplace advantages, and they would have too much advantage over smaller competitors.

Senator BOSCHWITZ. Why do not producers and processors just conduct the type of advertising on their own that you speak of?

Mr. GOLDMAN. Well, on a voluntary basis, the market given that the price is announced by all, every customer as it is us as a customer and to our customers as a customer, the price and the margin for the product is very narrow, and unless it was a total industry endeavor, I think it would be ineffective, and the margin is not there.

Senator BOSCHWITZ. Does not the consumer eventually bear the cost of the advertising and research?

Mr. GOLDMAN. Absolutely. The price to the consumer of 35 cents is about three-quarters of a cent a quart.

Senator BOSCHWITZ. And this would be assessed against guys like you and it would not be assessed against the farmer?

Mr. GOLDMAN. That is correct. It would not be assessed against the farmer.

Senator BOSCHWITZ. Under the Federal market order system, there is, in effect, no incentive for a farmer to produce the higher quality Class I milk as a processor who utilizes Class I product only, in your case; is that correct?

Mr. GOLDMAN. Yes. There is a problem on the procurement.

Senator BOSCHWITZ. How can you ensure an adequate supply for your needs?

Mr. GOLDMAN. Yes. I do think that the current system does create a problem in procurement because while Class I processors pay $2 and $3 a hundredweight more for the milk, when it comes to procurement, they are competing on an equal basis because of the way the blend price comes out with manufacturers. And I do think that the system needs to address farmers being rewarded better or in some way to assure that there is adequate supplies for Class I because that does offer the higher return.

Senator BOSCHWITZ. Milk is one of the most regulated products certainly in agriculture. Do you think that the tight reins that we keep on milk has helped or hurt the industry and the consumer?

Mr. GOLDMAN. It clearly, the things that we just addressed here are only part of it. The regulation, the standards of identity, the difficulty in getting packaging designs and going through State and Federal regulators of what you are allowed to call it and what you are allowed to say about it, certainly make it even more difficult to deal with it from a marketing and promotion point of view, compared to most of the competitive beverages that do not have the same degree of regulation. So we have ourselves in a position where it is easier to sell stuff that is bad for you than it is to sell stuff that is good for you. And I think that has been a negative.

Senator **Boschwitz**. Am I correct in saying you cannot change the package without getting approval?

Mr. **Goldman**. That is correct. It is the size of the type and what you say and where it is placed on the package and a whole host of kinds of regulations.

Senator **Boschwitz**. Or what you call it, for that matter?

Mr. **Goldman**. And what you call it.

Senator **Boschwitz**. One of the earlier witnesses said that prices on dairy since 1980 has gone down by 23 percent and the retail price has gone up by 15 percent. Is that also your experience?

Mr. **Goldman**. You know there is a lot of people that deal with the product. I think that that is, in particular markets, I am sure some are up and some are down. I do not have statistics or facts that would either confirm or deny that.

Senator **Boschwitz**. Well, I thank the——

Senator **Kerrey**. Do you mind if I follow up on that because, Mr. Goldman, one of the questions I was going to ask has to do precisely with the New York market with which I think you are familiar.

Mr. **Goldman**. Yes.

Senator **Kerrey**. Since 1987 the retail price has gone up about 41 cents a gallon with no decline in price. There has been a steady increase in price. There has been no moment during that approximately 2½ year period when there was a decline. But the price of Class I has gone up and down twice during that period. Precisely, it has gone down twice during that period. How do you explain that?

Mr. **Goldman**. Well, first of all, I do not think it is so. The price has gone up and down retail, but retailers are the ultimate controllers of the price. Most, for example in our case, and when we entered the New York market, the price came down an average about 40 cents a gallon to consumers.

Senator **Kerrey**. When was this?

Mr. **Goldman**. We entered the market in 1987. The New York market was a previously closed market. That is another aspect of regulation that dairy has that, again, most industries do not have to contend with. But New York was closed to competitors. We happened to be based in New Jersey and it took me 7 years to get a license to sell milk there.

When we entered the market, given that there was this protective law, the price was artificially high, and the price came down, on average, about 40 cents a gallon, which really meant about $100 million a year difference to consumers in the New York-Long Island area. But since then milk prices, as you said, have gone up and down, and I think that has been the case. But retailers are the ones that—what I was starting to say before—is that the retailer is the one that controls it. Typically in our large chain store type customers, they do get the passthroughs when the price comes down. They get the same price announcement that I get. They know to the mill what the price has changed. And they are in a position to either decide competitively to keep it or not.

Senator Boschwitz. May I ask a question? Does your price go up and down with the cost of milk, your price to the retailers?

Mr. Goldman. Typically with the retailer we have a cost plus arrangement. It is obviously a lot harder when you go with the increase than it is when you go with a decrease. But they have all the facts and they get the same announcement form USDA that we do.

Senator Boschwitz. Thanks.

Senator Kerrey. Significantly, of course, the farmer does not have a cost plus arrangement; correct?

Mr. Goldman. No. Pardon.

Senator Kerrey. The farmer does not operate under a cost plus arrangement?

Mr. Goldman. No.

Senator Kerrey. From the meeting that you and I had I am familiar with the advantage to the consumer of New York after you entered the market, and perhaps I am looking at numbers that are not accurate. I genuinely am, Mr. Goldman, trying to get a sense of what to say to producers when I look at information like this. This is from the International Association of Milk Control Agencies. Is that a reputable organization?

Mr. Goldman. What that is is various State agencies, regulators in milk who take surveys in a couple of areas in the State and send in the results of those surveys. I am not saying that it is necessarily either inaccurate or that accurate. It would reflect the neighborhoods that they took the surveys in.

Senator Kerrey. I do not want to pursue it at great length here this morning, but I would appreciate your looking at the numbers that they have, because it just invites the question. You can see when the Class I price goes down——

Mr. Goldman. Sometimes they keep it; it is true. Sometimes the retailers keep it. No question.

Senator Kerrey. In fact, there has been a steady increase in the retail price over that period of time. There are two cases where there were price decreases in Class I, but no adjustment at all on the retail price. I understand that these are just two samples out of the period.

Mr. Goldman. Yes.

Senator Kerrey. But in those two instances there was no change in retail prices.

Mr. Goldman. Yes, and I think that it is true what one of the other people said before. There is often a lag in response to lowering which sometimes is both—well, it is more noticeable to us because we are all consumers. So it is more noticeable to us because we are paying for it, but there is a lag between a decrease and the effect of it at retail, and it depends on particular competitive conditions between retailers.

Senator Kerrey. Senator McConnell.

Senator McConnell. Yes, Mr. Chairman, just one question. I was listening, as the rest of us were, with a good deal of interest to your promotional suggestions.

Mr. Goldman. Thank you.

Senator McConnell. Have you run that proposal by others in the industry including producers?

Mr. GOLDMAN. Yes, I have.

Senator MCCONNELL. And how do they feel about it?

Mr. GOLDMAN. The general opinion has been positive. A number of processors that I have spoken to have indicated support and both individual producers and some producer groups that I have spoken to have also indicated support.

Senator MCCONNELL. I wish we had had a chance to ask the various producer groups that question. If they are still in the room, it would be nice to hear from them on that, and I thank you, Mr. Chairman.

Mr. GOLDMAN. And I would be happy to discuss it with them. Thank you.

Senator KERREY. Thank you. Well, we have three other people at the table here. What do you all think?

Mr. TIPTON. I would be happy to respond, Mr. Chairman, with respect to the milk processors—I should have mentioned when Mr. McConnell was still here—we are looking at the proposal. In fact, next week, Mr. Goldman will be meeting with several, a committee of our organization, looking at that proposition. We are not prepared to bring a proposal to the committee at this point, but we are seriously looking at it.

Mr. O'CONNELL. We have been looking at generic promotion. We would hope the National Dairy Board would spend more of its time on milk chocolate and chocolate milk, but that is a small commercial here. Although some of the generic promotions have not been successful, they are being used more and more and television is a very effective tool.

Senator KERREY. I do not know why it is necessary to promote milk chocolate. It just seems to be such a natural thing for people to eat.

Mr. O'CONNELL. We agree.

Senator KERREY. I would be interested in your analysis. I have had some experience with these voluntary promotions in other commodities, and I think it is fair to say that sometimes they work great and sometimes they are awful.

Mr. GOLDMAN. Yes.

Senator KERREY. There does not seem to be anything in between. Sometimes it is a benefit to the producer. Sometimes it simply adds to the producer's cost with no commensurate increase in income.

Mr. GOLDMAN. Well, here we are not looking to add anything to the producer. We are actually looking to return 10 of the 15 cents that the producer is currently spending.

Senator KERREY. If you could deal with that just briefly here this morning although I think it will probably take a longer period of time. I still would have some reservation about whether or not that additional 20 cents is going to get passed on to the producer. How do you guarantee that it will not happen?

Mr. GOLDMAN. No, no. What I am saying is that the producer is currently assessed 15 cents a hundredweight. He is paying 100 percent of the current cost.

Senator KERREY. Yes.

Mr. GOLDMAN. And our suggestion is to lower that to a nickel so that he immediately gets the 10 cents increase because his assessment just went from 15 cents to 5 cents.

Senator Kerrey. All right.

Mr. Goldman. So the amount that is being deducted from him would be reduced by 10 cents. At the same time, the price through the Department of Agriculture would be increased by 35 cents. That is what the processor pays for the milk, and that would be passed on. The consumers would pay three-quarters of a cent a quart more for milk, and that money which processors would collect would be then put into this fund. So the first direct impact on the farmer is a 10 cent increase, and the long-term impacts would be the results of the additional fluid milk sales.

Senator Kerrey. We are going to have to have some additional discussions on that.

Mr. Goldman. OK.

Senator Kerrey. I still have some reservations about it, but the proposal is interesting to me because, as I said, I have seen these voluntary, self-promotions work, but they seem to work very well or not at all. It is either great or it is awful. And so I would be very interested in seeing some additional detail on the proposal itself.

Mr. Goldman. I would be happy to see if we can supply you something for the record.

Senator Kerrey. Mr. Gaibler, can you comment. Mr. Tipton made some comments about adjusting the relative value of butter and nonfat solids. Can you give me some comments on whether or not you think that is a good idea?

Mr. Gaibler. Well, our boards of directors adopted a policy that both the solids and the milkfat solids components should be considered in terms of the calculation of future CCC purchases. But, it is important to note that the product price alignments were implemented primarily as a result of direction by the Congress through the Budget Acts, through the April 1 and July 1 price support adjustments have been put in place to reflect the market value for milkfat. However, I believe that is the determining factor rather than how we should calculate component values of CCC purchases of dairy products.

But they have some concerns and so they have come out with the position that if possible we should take into account both the fat and the milk solids.

Senator Kerrey. Can you tell me, any of you, what you think the relationship is between the amount of milk that is produced and the announced support price by USDA? Is there a relationship at all, and if so, what is the relationship?

Mr. Tipton. I would comment that for the last several years, the supply has been responsive to the amount of money the farmers have gotten at substantially above the support price level. The actual determinant as to what, how much milk is going to be produced, is how much money the farmers have gotten. Dairy farm income in the past year is one, net farm income is one of the highest ever, and it is because prices were extremely high, well above the support price level.

So I think that it becomes a matter of there have been other times when the price support was and the price farmers were getting were identical. But for the last several years, the prices farmers have gotten is well above the support price level.

Mr. **Goldman**. It only comes to support when there is too much around, when there is not enough demand for what is being produced. So again, that is the focus of if we sell more, the support level should not even become an issue because it should not be at or near support level.

Mr. **O'Connell**. We do not necessarily like high prices, but we prefer the market to operate, and it has been operating to some degree over the last year or so.

Senator **Kerrey**. What do you forecast for the next 18 months?

Mr. **O'Connell**. Well, we think it will be about a 1.7, 2.2 percent increase in milk supplies, somewhere in that area. That is one of the reasons we are supporting the continuation of the program that is in existence. We think it is going in the right direction. We believe the surplus levels will stay in a relatively modest area. And we believe the market will continue to operate more effectively than just depending on the price support levels.

Senator **Kerrey**. I guess I am concerned about the price to the producer. What is your estimation of that?

Mr. **O'Connell**. I do not really have a good fix on that. Do you, Tip?

Mr. **Tipton**. Our estimates are that the prices paid producers will continue to run well above the support price.

Senator **Kerrey**. You see them continuing up over the next several months?

Mr. **Tipton**. Well, not continuing up. I think that will be a decrease from what they were last year because that was an enormously high price last year, but they will run well above the support price level.

Senator **Kerrey**. The question I was trying to get to earlier is that when USDA a few months ago announced their support price, was there a producer response to that? Is there any connection between that number and the supply that becomes available?

Mr. **Tipton**. Whatever is attempting to respond is that if the market prices are running above it, which they have for the past several years, then it really does not make a great deal of difference what the support price is. There are other years when it is actually important because that is, the support price is actually setting the price that the farmers receive. So I think in the last 2 or 3 years, the support price itself has not really been extremely important in terms of what the farmers were receiving because market prices were above that anyway.

Mr. **Goldman**. I think there is a psychological impact because historically there have been so many years of milk being sold at the support price that that is something that is considered or responded to at least psychologically by producers, but it is absolutely so that in the last several years, the market price has been significantly above and it has not had an impact in reality.

Senator **Kerrey**. Are you suggesting that the program itself then becomes irrelevant in all of this?

Mr. **Tipton**. I would certainly not. I think that the program serves an extremely important role, and should be maintained. We are extremely supportive of the price support program. It should be maintained in establishing the prices that farmers and everybody can be assured that it is not going to go below that level. But, also, there is nothing to prevent it going well above that level, which it did this last year, substantially above it.

Mr. O'CONNELL. I think our position is we would like to see it become irrelevant, simply because we think the market can work, and we are living in a world economy now. We are trying to export as much chocolate as we can, and it is a competitive world. So the better ingredient prices you have, the better price you can give to the person buying it. But that is not right at the moment. We do not see it over the next several years. We hope if you extend this program another 5 years, we might come back and say in 5 years that maybe it is irrelevant.

Senator KERREY. My observation would be that there is an indirect relationship between the announced price and the producer response to it. If you are concerned right now with inadequate supplies and you decrease the support price as a consequence of that, you are only going to make the situation worse, not better. That is a point of view that I would hold and I was trying to get at that observation.

Mr. TIPTON. I would suggest, Mr. Chairman, that what the dairy farmer is producing for is the price he is receiving. And if the price he is receiving is well above the support price anyway, then a drop in the support price has no effect on his income. And so therefore, it would be very indirect. I do not think he would respond to it at all. Now if it were that the price he was receiving decreased correspondingly with the support price, then it would have an impact. But our view is that for the last several years, it has been above the support price, and for subsequent, for this year and parts of, if not all of, next year, it will be above the support price as well.

Mr. O'CONNELL. I think there is another factor in here, Mr. Chairman. If the farmer believes the price he is receiving is above his cost of production, he will continue to expand his production, and possibly the price support has no bearing on it. There is a significant difference—I believe everyone recognizes it—between the efficient operations in some parts of the country than there are in the other. And so the more efficient operators are going to keep expanding if the price support is above their cost of production.

Senator KERREY. Well, I want to thank each one of the panel members for appearing. You have been very, very helpful, and I think you have an idea of the sort of additional information that we are going to need, particularly on the promotional proposal you have.

Mr. GOLDMAN. Yes. Thank you.

Senator KERREY. We also have a statement from John Harman, director of Food and Agriculture Issues of the General Accounting Office, which will be submitted for the record.

[The prepared statement of Mr. Harman follows:]

United States General Accounting Office

GAO

Testimony

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Federal Dairy Programs

Insights Into Past Provide Perspective for the Future

Statement for the Record by
John W. Harman, Director,
Food and Agriculture Issues

Resources, Community, and Economic
Development Division

Before the Committee on Agriculture,
Nutrition, and Forestry
United States Senate

Mr. Chairman:

We are pleased to submit for your hearing on dairy programs for the 1990s, a statement for the record on the implications of current dairy policy. As consideration begins on the 1990 farm bill, one needs only to reflect on changes that occurred to the dairy industry in the 1980s to understand the dynamics of that industry since the 1930s--the beginning of federal efforts to promote stable dairy markets, ensure adequate supplies, stabilize prices, and improve farmer income. The 1980s began with such excessive milk production that large government purchases of dairy products were required, costing the taxpayers about $17.2 billion during that decade. In fact, the inventory of these products was so large that the federal government had difficulty giving them away. However, as the 1980s ended and the 1990s have begun, federal dairy surpluses of cheese and non-fat dry milk have declined to such an extent that traditional donation programs have little or no dairy products for donation. In addition, while consumer prices for retail dairy products rose an average of 2 percent annually in the mid- and late 1980s they increased by 6 percent in 1989.

As you requested, this statement discusses (1) how the dairy industry has changed since the federal government first enacted specific dairy legislation during the 1930s, (2) the evolution of federal involvement in the dairy industry, and (3) how federal programs, according to our analyses, have affected milk supplies.

In summary, the dairy industry has changed significantly in the over 50 years of federal involvement. For example, while the numbers of cows and farms have declined substantially, milk production has increased. These production increases have contributed to changes in federal involvement in the industry. Initially, the government became involved when low milk prices appeared to threaten the adequacy of the nation's milk supply. Federal actions were therefore intended to stabilize milk prices and encourage milk production. Over time, the federal milk programs--milk marketing orders and price supports--contributed to market distortions; creating incentives for periodic surpluses by encouraging more milk to be produced than could be marketed at resulting prices. Consequently, government actions during the 1980s, including price support reductions, were directed at curbing milk production. However, those actions that paid farmers to reduce production or stop dairy farming have achieved only temporary success. Accordingly, we have continued to encourage changes that, over the long term, would provide more permanent solutions to periodic surplus problems, make dairy programs more market-oriented, and reduce the federal role in the dairy industry.

BACKGROUND

The objectives of the federal dairy policy over the years have been to support farmers' prices and incomes, expand consumption, ensure an adequate supply of good quality milk, and stabilize dairy prices and markets. The policy is carried out principally through two programs--the milk marketing order program, created in 1937, and a price support program, created in 1949.

To meet the objectives of promoting stable markets, ensuring adequate supplies, stabilizing prices, and improving farmer income, marketing orders set forth marketing practices, terms and conditions of sale, minimum prices that must be paid by dairy plants, and the distribution of financial returns among farmers.

Under the price support program, the U.S. Department of Agriculture purchases, at designated prices, all quantities of butter, cheese, and nonfat dry milk that cannot be used commercially. The program stabilizes milk prices by, in effect, guaranteeing a minimum price for any amount of dairy product that can be produced. Federal outlays for the program are dependent upon the extent to which milk production exceeds commercial use and the support price. The more that production exceeds use, the more surplus products the government buys and the greater the cost to the government.

OUR ANALYSIS

I would now like to focus my testimony on changes that have occurred over the last 60 years in the dairy industry, federal efforts to legislatively manage milk production, and our past analyses of how federal programs affected dairy surpluses.

Dairy Industry Has Changed

While the basic legislation has remained relatively unchanged, the efficiency of milk production has increased. Annual milk production per cow has grown from about 4,500 pounds in 1930 to about 14,200 pounds in 1988. These gains have largely been a result of advances in technology, better management, and improved breeding.

These gains in production have more than compensated for decreases in both the number of dairy cows and farms. Between 1930 and 1988, the number of cows declined from 22.2 million to 10.2 million, and the number of dairy farms decreased from about 4.5 million to about 220,000. The average herd size in that period increased from 5 to 46.

The Upper Midwest continues to be the major milk producing area, representing about 28 percent of U.S. milk production in 1988. Although its share of total milk production has not changed significantly since 1970, the shares of some other regions have. The Southwest, for example, has increased its percentage of U.S. milk production by 60 percent, to 14.9 percent of the 1988 national milk production, while the Corn Belt's share has declined by about 20 percent.

Changes in Focus of Federal Involvement

Federal involvement in the dairy industry began in the 1930s when low milk prices were perceived to threaten the nation's milk supply. Both the marketing order and price support programs were created to stabilize prices for the farmer and help ensure an adequate supply of milk. From the 1930s through the 1970s, the two programs were changed generally to support incomes for the farmer by increasing the price support level and establishing a national pricing system.

During the late 1970s and early 1980s, farmers began to produce milk at unprecedented levels. Because the market was unable to absorb the additional production, annual purchases under the price support program dramatically increased from $251 million in 1979 to $2.6 billion in 1983. This led to actions in 1981 and 1983 that were intended to control the surplus, in part, through the price support program. Another program, the Milk Diversion Program, in 1984, paid farmers to reduce the amount of milk they marketed for a 15-month period. In 1985, the Congress (1) instituted a "supply/demand adjuster," which--for a limited number of years--automatically reduced price supports if surpluses were projected to exceed certain levels, and (2) authorized the Dairy

Termination Program, which paid farmers to slaughter or export their entire herds and leave dairying for 5 years. Because the 1988 drought increased feed prices, the Congress passed legislation to suspend use of the automatic supply/demand adjuster in 1989.

GAO Analyses Support Less Federal Involvement in Dairy Programs

Over the last 10 years, we have reported (see attached list of related products) that the milk marketing order and price support programs have contributed to periodic surpluses by creating incentives to produce more milk than can be marketed. We found that the guaranteed purchase of all production and the consistent increases in price supports during the 1970s--from $9.00 per hundredweight of milk in 1977 to $13.10 per hundredweight of milk in 1980--created incentives for farmers to continue to increase milk production despite accumulating dairy surpluses.

The pricing policies established by milk marketing orders were intended to encourage and maintain a locally produced supply of milk. These policies can no longer be justified for this reason because grade A milk is produced in all regions of the country and technologies are available to transfer it between regions as needed. As such, milk marketing orders provide incentives, in addition to those provided by the price support program, to produce milk.

Milk marketing orders created incentives for excessive production because the fluid milk prices under certain orders were artificially high. Under marketing orders, the grade A differential is higher than the added cost of producing grade A milk (only grade A can be used for fluid consumption) instead of grade B milk (used only for manufacturing dairy products). About 88 percent of all milk produced in this country is grade A, far more than is needed for fluid milk markets.

Other marketing order provisions (called down allocations and compensatory payments) are designed to economically discourage the shipment of reconstituted milk, which is a more efficient means for moving milk between distant locations.

In addition, marketing order distance differentials that were originally intended to make it profitable to transport milk into deficit areas have, in fact, created regional inequities. Distance differentials provide production incentives in all regions of the country, except the Upper Midwest. The greater these differentials, the greater the production incentives. These incentives have been partly responsible for the increase in milk production in some regions of the county.

Further, as production increases nationally, the more likely it is that surpluses will rise high enough to cause the support price to fall, if the supply/demand adjuster is retained. A combination of higher differentials and lower support prices can have a particularly adverse impact upon the traditional milk-producing region of the Upper Midwest, which receives little or no benefit from the differentials but which would be hurt by declines in the support price.

Efforts to reduce milk surpluses, under the milk diversion and dairy termination programs, have achieved only temporary success. For example, we estimated that the milk diversion program reduced production by about 4 billion pounds in 1984 and could have saved up to $664 million. We also estimated that from 1986 through 1990, the dairy termination program would reduce milk production by 39.4 billion pounds and save the government about $2.4 billion. While these figures may sound impressive, the estimates of annual milk reductions attributable to the dairy termination program declined each year after 1987, indicating the program would have no lasting effect on milk production. However, unlike the temporary impact of these programs, price-support reductions have a permanent impact.

CONCLUSIONS

While short-term solutions have addressed the periodic surpluses, we believe that a long-term, permanent solution is needed. We have recommended to the Congress that it adopt changes in dairy programs that would make them more market-oriented, reducing the federal role in the dairy industry.[1] Accordingly, in regard to the price support program, we recommended that the Congress continue to use a supply/demand adjuster, tied to a relatively low level of expected surpluses, to set price support levels. In regard to milk marketing orders, we recommended that the Congress gradually decrease the federal role in milk pricing through a series of steps that better reflect regional cost-of-production differences, allow freer movement of milk between regions, and eliminate features of milk pricing that distort regional production patterns.

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[1] Federal Dairy Programs: Insights Into Their Past Provide Perspectives on Their Future (GAO/RCED-90-88, Feb 28, 1990).

RELATED GAO PRODUCTS

Federal Dairy Programs: Insights Into Their Past Provide Perspectives on Their Future (GAO/RCED-90-88, Feb. 28, 1990).

Dairy Imports: Issues Related to Chocolate Products (GAO/RCED-89-159BR, July 18, 1989).

Milk Pricing: New Method for Setting Farm Milk Prices Needs to Be Developed (GAO/RCED-90-8, Nov. 3, 1989).

Dairy Termination Program: An Estimate of Its Impact and Cost-Effectiveness (GAO/RCED-89-96, July 6, 1989).

California Dairy: Production, Sales, and Product Disposition (GAO/RCED-88-180FS, June 15, 1988).

Dairy Termination Program: A Perspective on Its Participants and Milk Production (GAO/RCED-88-157, May 31, 1988).

Milk Marketing Orders: Options for Change (GAO/RCED-88-9, Mar. 21, 1988).

Farm Programs: An Overview of Price and Income Support and Storage Programs (GAO/RCED-88-84BR, Feb. 29, 1988).

Federally Owned Dairy Products: Inventories and Distributions, Fiscal Years 1982-88 (GAO/RCED-88-108FS, Feb. 23, 1988).

Surplus Commodities: Temporary Emergency Food Assistance Program's Operations and Continuance (GAO/RCED-88-11, Oct. 19, 1987).

Food Inventories: Inventory Management of Federally Owned and Donated Surplus Foods (GAO/RCED-86-11, Dec. 5, 1985).

Overview of the Dairy Surplus Issue--Policy Options for Congressional Consideration (GAO/RCED-85-132, Sept. 18, 1985).

Effects and Administration of the 1984 Milk Diversion Program (GAO/RCED-85-126, July 29, 1985).

Government-Owned Surplus Dairy Products Held in Inventory (GAO/RCED-85-43, Jan. 7, 1985).

Improved Administration of Special Surplus Dairy Product Distribution Program Needed (GAO/RCED-84-58, Mar. 14, 1984).

Savings Are Possible Through Better Management of Government-Owned Dairy Products (GAO/CED-82-79, May 18, 1982).

Alternatives to Reduce Dairy Surpluses (CED-80-88, July 21, 1980).

Senator KERREY. Thank you very much, gentlemen.

[Whereupon, at 11:40 a.m., the committee adjourned, subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

APPENDIX

PREPARED STATEMENT OF AMERICAN AGRICULTURE MOVEMENT, INC., WASHINGTON, DC

American Agriculture Movement, Inc. (AAM), is a general farm organization which represents farmers producing a wide variety of commodities in 32 States. Thank you for the opportunity to share our organization's ideas on provisions of the dairy program for the 1990 farm bill.

Today, in many of our dairy producing areas there is a limited feeling of optimism. Milk supplies are down, milk prices are higher when compared to those of just a few years ago, and dairy farmers are a little better off than they were just a few years ago. Things are not great, just better.

In contrast to this feeling of optimism, there is also a very justifiable feeling of concern toward the future of the dairy business. Dairy farmers realize that without proper legislation, lower prices are just around the corner. There are many factors which will contribute to lower prices:

First, present prices without supply management of some sort will invariably result in higher production, oversupply, and lower prices. Further complicating this problem is the fact that the 6-year dairy termination contracts which were entered into in 1986 are due to expire next year, resulting in even more production, more inventory, and lower prices again.

Second, the administration's plans of drastically lower milk price supports will create a new, much lower, floor for milk prices when they do decline. If we retain the current program, it is very possible that milk support prices could be set as low as $7 per hundredweight.

Third, if U.S. milk prices are to be sustained at profitable levels, and we are serious about inventory control, we must address the problem of imports.

Last, the concerns of consumers over milk quality and safety must be addressed or market demand could be adversely affected, resulting in lower consumption, again high inventories, and again lower pricers for farmers.

In order to properly address these problems, AAM urges the adoption of the following in the 1990 farm bill:

1. AAM supports the establishment of a national quota system to more adequately control milk production. The national quota would go in effect only after approval by a referendum of producers. Regional marketing quotas have worked well in many areas, but have reached a point where farmers of one region are pitted against those of another. A national quota system would alleviate this problem, as well as other abuses associated with uncoordinated regional marketing quotas. The national system would establish marketing bases, based on recent production patterns of individual producers. These bases would not reverse the consolidation and shifts in production areas which have occurred in the recent past, but a program such as this would slow the trend of fewer dairy farms. In addition, AAM believes it would be less expensive to administer a program which uses present data, than it would to start from scratch. AAM would also support giving priority for new marketing bases to beginning farmers.

A national quota program would require the Secretary of Agriculture to calculate the amount of production necessary to meet America's annual needs, which should also include commodity distribution programs and other commitments. The present program of pitting dairy farmers against low-income citizens is unacceptable. An example of this occurred when groups participating in the Temporary Emergency Food Assistance Program were told there was no more surplus cheese to be distributed, and at the same time dairy farmers were told butter surpluses were too high, resulting in cuts in their support price. This action only sent the message to the low-income citizens that there needs were unimportant, and a message to dairy farmers that the Government thought they were making too much money. It is obvious that we can design a better program than this. AAM believes concessional sales and commitments for low-income distribution should be excluded from consideration as surplus commodities. Producers should not be penalized with price cuts on the basis of an arbitrary trigger that doesn't even account for Government food distribution programs and concessional sales.

2. In conjunction with the national quota system, AAM proposes a support price for milk of 70 percent of parity for a base level of marketing. AAM also suggest assessments on production in excess of that needed for commercial markets and Government commitments for low income distribution to essentially pay for the cost of removal. This would relieve taxpayers from the cost of paying for oversupply, and make that cost the responsibility of the producers responsible for creating the oversupply.

3. In order to address the problem of imported dairy products, AAM emphasizes the necessity of keeping section 22 in effect. We oppose any attempt to trade section 22 away at the General Agreement on Tariffs and Trade (GATT). Section 22 is important to consumers, taxpayers, dairy farmers, as well as producers of all other commodities in America. AAM believes an additional hearing should be held to examine the impacts of the possible loss of section 22.

4. It serves no purpose to produce milk, at whatever quantity or price, if consumers concerns over quality and safety precludes them from purchasing it. AAM supports the labeling of any milk produced with bovine growth hormone (BGH). Consumers have a right to know what they are buying. We also urge this committee to hold a hearing to address the use of BGH as there are several issues that ought to be examined.

AAM is also very concerned about a report issued last summer by Chairman Dingell's House Committee on Energy and Commerce which stated that the Food and Drug Administration only physically inspected 2 percent of the food imported into this country in 1987. Of those foods inspected, 40 percent were rejected. Dairy products that were rejected were found to have unacceptable levels of salmonella and chemical residues. We urge this committee to work with the Energy and Commerce Committee to strengthen FDA's role in inspection of imported food products. All imported products should be labeled as per the country of origin all the way to the consumer. All imported products should meet the same inspection and quality as required of U.S. producers. Chemicals and substances banned from use in the United States should also be banned on products imported into the United States. We are also concerned that the U.S. Trade Representatives proposal at GATT would lower the import standards for this country.

Milk has earned a reputation for being healthy and wholesome. Keeping that reputation involves keeping family farmers producing it and ensuring its quality to the people who consume it.

PREPARED STATEMENT OF THE HOLSTEIN ASSOCIATION OF AMERICA, BRATTLEBORO, VT, PRESENTED BY CARL E. BUTLER, VICE PRESIDENT AND CHAIRMAN, HOLSTEIN ASSOCIATION MILK ADVISORY COMMITTEE, PINE PLAINS, NY

I am Carl E. Butler of Pine Plains, New York, where my family operates a dairy farm that supports 80 milking cows and 100 head of young stock. In 1989 we marketed approximately 1½ million pounds of milk. This places us at about midsize of New York dairy farms. In addition, I serve as vice president of the Holstein Association of America and chairman of its Milk Advisory Committee. It is in this latter capacity that I appear before you today.

These comments are being submitted on behalf of the 56,000 members of the Holstein Association of America representing approximately 20,000 dairy farm operations.

Numbered among Holstein Association members are dairy farmers that are also members of other dairy organizations, including National Milk Producers Federation and American Farm Bureau Federation. We also have many members who market their milk directly to proprietary handlers with no cooperative affiliation. In many of these cases, the Holstein Association may be the only representative of these independent producers at this level. The common denominator of our membership is that they are dairy farmers or dairy farm families, that derive their livelihood from breeding, raising, milking and in many cases merchandising the genetics of the Holstein cow.

At its annual meeting on June 28, 1989, with all States in the continental United States represented, the 236 elected voting delegates approved the following resolution by an overwhelming majority:

WHEREAS, consumers in the United States spend the lowest percentage of their income for food of any country in the world; and

WHEREAS, dairy production in excess of market needs causes producer prices to drop to the floor of that market; and

WHEREAS, the present market situation allows profit for surplus products for everyone except the producer,

NOW THEREFORE, BE IT RESOLVED, that we, the delegates to the annual meeting of the Holstein-Friesian Association of America at Minneapolis. Minnesota, June 28, 1989, endorse the concept of farmer-controlled supply management; and

BE IT FURTHER RESOLVED, that we, the delegates, urgently request the National Holstein Association to aggressively pursue the cause of a farmer-controlled dairy production supply management concept so that such a concept is adopted in the 1990 farm bill.

With over 90 percent of the milk in the United States being produced by dairy cows bearing the distinctive Holstein breed characteristics, the membership of the Holstein Association recognizes, and accepts, the responsibility to go beyond just producing fresh, wholesome milk in sufficient quantities to supply the U.S. consuming public, Federal programs, and the export market.

Members of the Holstein Association realize that a dairy program must serve several purposes. Perhaps this is best described by the section of the Holstein Association's Statements of Position on National Issues, under the title of National Dairy Policy:

> "That the basic tenants of all public policies and programs related to the dairy industry be directed toward the efficient production of an adequate supply of high-quality milk and dairy products at a reasonable price to the consumer and a fair return to the producer. That Federal nutrition programs for appropriate and worthy categories of citizens using milk and natural dairy products remain a national obligation, but not as an integral part of the dairy stabilization program."

In developing its position on the dairy title of the 1990 farm bill the Holstein Association carefully monitored the actions of American Farm Bureau and the National Milk Producers Federation. The Holstein Association at all times attempted to add a voice for unity in the dairy industry and to work toward that end. We have been very pleased to see some of the main players develop positions so similar in detail that it can be said that the dairy industry is basically unified in recommending the programs to stabilize a major segment of U.S. agriculture.

With this as background, I would now like to present the Holstein Association's position on the 1990 farm bill as it pertains to dairy issues. They can be broken down into three categories including (1) General Recommendations; (2) Specific Dairy Recommendations; and (3) the 1990 FARM BILL.

First, the GENERAL RECOMMENDATIONS:

A. That the dairy provision of the 1990 farm bill be market oriented.

B. That the 1990 farm bill be designed to stabilize milk prices.

C. That section 22 of the 1985 farm bill dealing with import limitations remain in effect and be enforced in order that the dairy provisions of the 1990 farm bill be fair and equitable to U.S. dairy producers.

D. That provisions for an export enhancement program for live cattle be included in the 1990 farm bill.

E. That the long range dairy policy concepts contained in the report of the National Commission on Dairy Policy be supported.

Second, the SPECIFIC DAIRY RECOMMENDATIONS:

A. Increase and enforce minimum standards for whole-milk from the existing 3.25 percent butterfat and 8.25 percent solids-not-fat to 3.5 percent butterfat and 8.5 percent solids-not-fat. Total solids content of milk other than nonfat milk should be established at 12 percent.

B. Establish a multiple component pricing system to the producer in all Federal Marketing Orders.

C. Shift the calculation and estimation of Commodity Credit Corporation dairy purchases from a butterfat basis to a total solids basis.

D. Subtract the value of Commodity Credit Corporation held surplus dairy stocks used in entitlement programs, or any other foreign or domestic food assistance program, from the cost of Commodity Credit Corporation purchases. The dairy stocks used in these programs should not be included in calculating trigger levels for price support cuts.

Third, the 1990 FARM BILL should include:

A. Provisions for a standby Supply Management Program to be implemented if reserves reach unacceptable levels. This program could include the following provisions:

1. A two-tiered pricing system as outlined by the National Milk Producers Federation.
2. A targeted Whole-Herd Buyout.
3. A heifer and/or heifer calf buyout.

B. Implementation of a Supply Management Program by the Secretary of Agriculture would occur when estimates of national production reached predetermined levels or with the implementation of price support cuts. The decision to implement or continue a Supply Management Program must be made on an annual basis.

C. The discretion of the Secretary of Agriculture to cut price supports in any one calendar year should be limited to a maximum of 2 percent of the current support price.

D. A Dairy Producer Board appointed by the Secretary of Agriculture to administer the Supply Management Program and the disposal of dairy product reserves with USDA oversight.

Delegates to the Purebred Dairy Cattle Association (PDCA), annual meeting in Columbus, Ohio, February 23, 1990, adopted basically these same positions. The PDCA is an organization made up of the six major dairy breed registry organizations in the United States.

It is the belief of the Holstein Association that these recommendations are in harmony with the positions of many other dairy organizations.

Furthermore, we believe that inclusion of these provisions in the dairy title of the 1990 farm bill will satisfy many segments of our society concerned with the issues of:

(1) Federal budgetary consideration;

(2) Consumer needs for a plentiful supply of dairy products at a price he can afford; and

(3) The dairy farmer's concern for maintaining a reasonable standard of living for himself and his family.

Thank you for your consideration.

PREPARED STATEMENT OF STEWART G. HUBER, PRESIDENT, FARMERS UNION MILK MARKETING COOPERATIVE, MADISON, WI

Mr. Chairman and members of the committee, I am Stewart Huber, president and CEO of the Farmers Union Milk Marketing Cooperative. I own and operate a dairy farm in Waupaca County, Wisconsin, with members of my family. On behalf of our more than 9,500 members in seven Midwest States, we thank you for this opportunity to have our testimony entered into the record of today's hearing.

We want to comment on a number of dairy policy proposals which have been put forth in recent days, and present our own recommendations for the future.

ADMINISTRATION PROPOSAL UNACCEPTABLE

The Bush administration's proposal to simply continue ratcheting down the dairy price support level in response to future surpluses is not an acceptable alternative. This price cutting approach will continue the painful downward spiral in farm income, driving thousands more family dairy farms out of business in the Upper Midwest. This proposal treats dairy farmers in a manner inconsistent with President Bush's promise of a kinder, gentler nation.

We welcome Secretary Yeutter's apparent interest in addressing legislated Class I differentials and other Federal milk order concerns through the administrative review process, and have heard reports that the Secretary may be close to calling a national hearing. We urge the committee to join us in supporting such a hearing on Federal order reform.

Regrettably, the administration's proposal lacks any kind of provision to deal with price-depressing milk surpluses which many in the industry expect in coming years. An inventory control program is essential if we are to balance milk supplies and demand, reduce program costs and protect farm income in the uncertain times ahead. The Food and Drug Administration's recent approval of the fat substitute Simplesse reinforces our belief in the need for an effective inventory control program.

DAIRY TARGET PRICING IS RIGHT FOR THE TIMES

We urge you to adopt a target price-deficiency payment proposal for milk. This type of program, which takes a page out of the feed grains book, is right for the times. Dairy target pricing will provide farmers with effective tools to control surplus production while at the same time allowing the dairy program to live within the budgetary restraints of the 1990's.

Delegates attending our 18th Annual Member Meeting held February 3, 1990, in Stevens Point, Wisconsin, reaffirmed their support for dairy target pricing with the following policy resolution:

"A voluntary dairy target price-deficiency payment program is the best available option for balancing milk supplies and demand under the current political situation. This program would place dairy on the same footing as the other major commodities by extending current payment limitations, loan programs, and other provisions of current law to milk. This voluntary program allows balancing of supply and demand, provides targeting of benefits to small and medium-sized producers, and is both producer oriented and market oriented. Unlike some other options, this program would be easy and inexpensive to administer. Program costs can be effectively capped under this program, which is based on pounds rather than acres, and consumers would not pay twice through taxes and higher food costs."

Enclosed are two documents describing the basics of how a dairy target price-deficiency payment program would work and why it is so appropriate for the 1990's. We ask that these documents also be entered into the hearing record.

CAP PROPOSAL LACKS INCENTIVES TO CUT PRODUCTION

We understand that the committee is considering the National Milk Producers Federation's newly adopted Component Adjustment Program. While we support the inclusion of dairy diversion among the options available to the Secretary, there are serious flaws in the proposal's other major provisions.

Taken at face value, this proposal to deal with butterfat or other components in surplus appears to have some merit. On closer examination, however, this complicated proposal is in fact a poorly disguised attempt to impose a new layer of producer assessments without providing something worthwhile in return—i.e., the necessary economic incentives to reduce production.

In analyzing this proposal, two noted University of Wisconsin dairy economists have found that it does not make economic sense for producers to reduce output by participating in this program. It is cheaper to pay the assessment while maintaining or increasing production. NMPF's own analysis of its proposal leads to the same conclusion.

By failing to provide the necessary economic incentives for participation, the CAP proposal fails two important tests. It does not provide producers with the benefits of an effective inventory control program, and it offers no solution to the problem of large Government purchases, which are sure to continue under this program.

We also believe that this program, like other two-tier pricing mechanisms, would be very difficult if not impossible to administer. No one has explained yet how this program would be administered, and what new burdens and costs might be imposed on the Government, producers and dairy plants, especially small, privately owned plants which lack the data processing capabilities of their larger competitors.

USDA STUDIES OF CAP FEASIBILITY NEEDED FIRST

We strongly urge the committee to order USDA to analyze the difficulty and cost of administering the Component Adjustment Program and report its findings to you before any legislative action is taken on this proposal. We suspect that any objective study would show the CAP to be a costly, unworkable program which does not justify the headaches it would cause for everyone involved.

We also recommend that the committee ask the Department to conduct a cost-benefit study of whether a producer assessment is the most effective and desirable means of funding an effective export subsidy program for butter or other surplus milk components. Again, we strongly suspect it is not.

While we favor dairy target pricing, we would also be able to support a modified dairy diversion program under a CAP-type program instead of another whole herd buyout or two-tiered pricing. We do, however, suggest that a diversion program be required whenever Government purchases reach 5 percent of consumption on a total solids basis rather than 6 percent as currently proposed.

Thank you for this opportunity to comment.

[The documents referred to in the prepared statement follow:]

DAIRY TARGET PRICE-DEFICIENCY PAYMENT PROPOSAL FOR 1990 FARM BILL DEBATE

Summary: New legislation would authorize a voluntary Dairy Target Price-Deficiency Payment Program similar to current programs for wheat, feed grain, cotton and rice. The new plan would replace dairy price support and Government purchase program and place dairy on same footing as other major commodities. Participants would receive deficiency payments for difference between market price and predetermined target price in return for making required reductions from assigned production base. Nonparticipants would receive market price for unrestricted production. Benefits would be targeted to small and medium-sized producers through payment limitations. Cost could be funded in part by producer assessment under certain conditions. Nonrecourse loan provision would allow dairy plants to place product in storage to provide market stability. Assumes no major changes in section 22 import quotas.

Goals: Program would be structured to provide the following benefits:

1. Stabilize and improve farm income;
2. Target benefits to small and medium-sized family farm operations;
3. Balance supply and demand;
4. Reduce Government costs;
5. Allow flexibility for individual producers; and
6. Reduce political pressure on the dairy program.

Implementation: Upon expiration of the 1985 farm bill, this program would go into effect automatically in renewable, 1-year increments during the life of the legislation whenever the Secretary of Agriculture determined that the projected surplus would equal or exceed 5 billion pounds milk equivalent for the coming calendar or marketing year. Secretary would determine percentage cutback necessary under program to balance supply and demand. Secretary would announce minimum diversion percentage for compliance with provisions for a 0/92 option as well.

Signup would occur on a voluntary basis at county ASCS offices prior to implementation. Participants would receive 40 percent advance deficiency payments at signup, with the balance to be paid at the end of the program upon verification of compliance. To maintain incentives for future participation, advance payments would not have to be repaid if annual deficiency payment is less than advance payment due to unusually large participation rate, drought or other unanticipated factors.

Target price and loan price could be set initially at a minimum of $12 and $10 per hundredweight, respectively. Participants would receive deficiency payments for difference between target price and market price, at a rate of up to $2 per hundredweight. Deficiency payments would be uniform throughout the Nation to assure equity among producers. Target price could be adjusted annually under a national economic formula derived from California pricing model (weighted as follows: milk production costs 43 percent, M–W price 42 percent and average weekly manufacturing wages 15 percent).

Payment limitations would be set at $50,000 per producer to target benefits to small and medium-sized family farms without providing huge subsidies to factory-type dairy operations. $50,000 payment cap would include all benefits received under dairy and crop programs less any assessments paid in.

Nonrecourse loan program would allow dairy plants to place dairy products under loan at a minimum of $10 per hundredweight for up to 9 months. Products would be placed in storage during flush months to stabilize market and later, at plant's option, could be redeemed if market prices are favorable or be forfeited to CCC at the loan's maturity. This is similar to the CCC loan program currently available to producers of other program crops. The major difference here is that the dairy plant would be making the loan request in place of individual producers, and that such loans could be made on all eligible dairy products produced by plant, regardless of whether milk came from participants or nonparticipants. M–W price would be required minimum price under any State fluid milk marketing order for any milk used for manufacturing purposes, thus eliminating current problems of lower Class IV pricing under California State order.

Production bases: Individual base would be established at the farm's production level during the calendar year preceding approval of legislation. Base would be permanently attached to facilities and could not be sold or transferred separately, although bases from separate facilities could be consolidated. Producers would not lose base by participating in program, so that participants would retain 100 percent of their original base histories at the conclusion of the program. Base would be defined in hundredweights of milk production rather than acres as now done with other commodity programs to provide meaningful production cutbacks.

New Producers who acquire a facility with an existing production base would be eligible for participation. Otherwise, new producers would accumulate base proportionally over a 5-year period as is currently done with other commodities.

Producer assessments could be authorized if needed to meet Federal budget requirements, *but only if similar assessments are imposed for other commodity programs.*

WHY DAIRY TARGET PRICING IS RIGHT FOR THE TIMES

The voluntary Dairy Target Price-Deficiency Payment Program proposed for the 1990 farm bill has several key advantages which make it the best available option under the current political climate. The 101st Congress may tinker with target price levels, but clearly will not support mandatory production controls. The Bush administration has also announced its strong opposition to mandatory controls. The National Commission on Dairy Policy correctly observed that emerging technologies will cause the already serious dairy surplus situation to become even worse in the absence of some effective means of balancing supply and demand. Increased Federal budgetary restraints further limit the options available to producers and policymakers.

DAIRY PURCHASE PROGRAM NO LONGER EFFECTIVE

The dairy price support program worked well through the late 1970's, but has since encountered major problems which may have rendered it obsolete. If the current program is extended in the absence of an effective new alternative, producers can expect to see the continuing ratcheting down milk prices due to the inherent limitations of the current program. These problems include:

- Program is open-ended, with no limit on Government costs;
- High overhead causes CCC acquisition costs to be much higher than the support price;
- Does not target benefits to small and medium-sized producers;
- Ineffective in protecting producer income. Support cuts are the only means of cost containment;
- Neither producer oriented nor market oriented; and
- Requires consumers to pay twice through higher taxes and at the supermarket.

What are the major options?

TWO-TIER PRICING

While some in the industry support two-tier pricing, this option has several key liabilities working against it. These include:

- Very difficult and costly to administer, especially for small dairy plants;
- Not compatible with other Federal farm programs;
- Mandatory in nature;
- Politically out of favor;
- Difficult to target benefits to small and medium-sized producers; and
- High consumer prices will reduce demand.

TARGET PRICE-DEFICIENCY PAYMENTS

In contrast, the dairy target pricing option offers several major advantages attractive to producers and policymakers alike. This approach would take a page out of the feed grains book and apply it to milk. Target pricing offers these advantages:

- **Makes dairy compatible with other major commodities;**
- **Most provisions of current law would simply be extended to milk, i.e., $50,000 payment limitation, loan provisions, etc.;**
- **Voluntary in nature;**
- **Politically acceptable;**
- **Easy and inexpensive to administer;**
- **Targets benefits to small and medium-sized producers;**
- **Producer oriented and market oriented;**
- **Consumers would not pay twice;**
- **Costs can effectively be capped;**

- Volume specific: based on pounds rather than acres; and
- Allows balancing of supply and demand.

PREPARED STATEMENT OF NATIONAL ALL-JERSEY INC., REYNOLDSBURG, OH

National All-Jersey Inc. supports inclusion of a provision in the dairy title of the 1990 farm bill supporting multiple component pricing.

National All-Jersey Inc., 6486 East Main Street, Reynoldsburg, 0hio 43068, is a national dairy farmer organization whose primary mission is the promotion of equitable milk pricing. National All-Jersey, Inc. has 846 dairy farmer members located in 41 States. Its sister organization, The American Jersey Cattle Club, the Nation's oldest dairy breed registry organization, has 2,880 members and provides services for over 20,000 dairy farmers each year.

The skim-butterfat milk pricing system, which is used in all but one Federal Milk Marketing Order (FMMO), is not market-oriented nor is it equitable. It does not give dairy farmers economic incentives to produce the kind of milk consumers are demanding. Under skim-butterfat pricing, dairy farmers are paid the same price for a pound of water as a pound of protein or a pound of nonfat solids. This system encourages dairy farmers to produce more volume or "white water" with little or no regard for nonfat solids.

Consumers, through their purchases of dairy products, are telling us the skim-butterfat system is outdated. Today, consumers are drinking more lowfat and skim milk than whole milk. Cheese consumption has doubled in the past 15 years. Consumer purchases indicate that the nonfat or skim portion of milk that contains the protein and nonfat solids is of growing importance and value. The industry is trying to respond to consumer's changing taste in dairy products, but our skim-butterfat milk pricing system is holding us back. Consumers are telling us they want one thing and our milk pricing system is telling us to produce another.

Multiple Component Pricing (MCP), a milk pricing system that prices milk based on its most valuable components in accordance with their use in consumer-purchased products, is market-oriented and equitable. MCP gives dairy farmers the economic incentive to produce the kind of milk components consumers are demanding.

MCP is not an untried or unused concept. It has proven itself. The State of California has successfully used MCP since 1962. A USDA report States that over one-half (51.56 percent) of all FMMO producers are eligible to participate in voluntary MCP plans. April 1, 1988, saw the first Federal Milk Marketing Order, the Great Basin, implement an MCP plan. As a result, progress is being made toward moving from the current skim-butterfat pricing system to an MCP plan. For the benefit of the entire dairy industry, this needs to be done quickly.

Another reason for the urgency of MCP is the shift in milk's value. The effect of the milk price support adjustments that took place in 1989 increased the value of the skim portion of milk relative to milkfat. As the skim continues to increase in value, it is imperative to price a component in the skim. An increase in the skim portion of milk without MCP gives dairy farmers a greater economic incentive to increase the volume of milk with no regard for components.

Multiple Component Pricing implemented in all FMMO's would generate many benefits. Dairy farmers would have the economic incentive to breed, feed and manage their herds over the long-term to increase their production of milk components of greatest demand and value. If dairy farmers are given the correct monetary signal, they can and will respond. When dairy farmers respond to a market-oriented milk pricing system, everyone benefits.

These benefits include providing consumers with a more nutritious and flavorful fluid milk product, increasing the efficiency of manufacturing plants, helping keep dairy products competitive with other foods, and providing the dairy industry with a milk pricing system that can adapt to future technologies and changes in dairy product consumption. The bottom line is a stronger and more prosperous dairy industry. One that is responsive to the consumer.

The national milk pricing system must recognize changing consumer demands, the nutritional value of milk, and being in-tune with what the dairy industry is marketing and promoting. We encourage you to include a provision in the dairy title of the 1990 farm bill supporting Multiple Component Pricing.

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